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The farm crisis of the 1980s in Iowa: its roots and its inner workings

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The farm crisis of the 1980s in Iowa: Its roots and its inner workings

by

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CHAPTER ONE

INTRODUCTION

Was the farm crisis of the 1980s just another bad episode in agriculture that can be traced back to colonial days? Or, can it be demonstrated that an ideological battle over policy in this country (going back to its founding) has been taking place? As the political forces on each side of this ideological battle have struggled for control over policy and its resulting legislation, the periodic uprisings of farmers has provided testimony that many in the farm sector were not happy with some of the policies. The ideological battle influenced agriculture policy, land policy, banking, monetary policy, and trade policy, as well as the response to natural disasters that have plagued farmers. The political forces for one of these policies finally gained sufficient strength to carry out its planned restructuring of the agriculture sector in the 1980s, in the belief that this would ultimately be in the best interest of a "more efficient" market system. It was the imposition of this policy that caused the farm "crisis" of the 1980s. When reading accounts and interpretations of the crisis, the ideology of the writer should be known in order to understand the perspective of the narrative.

Historians generally agree that thinkers of the Enlightenment influenced the founders of the United States. The list includes Montesquieu, Locke, Hume, Grotius, Bolingbroke, Plato, Rousseau, and others. The Enlightenment began approximately 100 years before the

American Revolution. The ideas, therefore, being discussed and developed by the thinkers in and around this movement were coming to fruition at a time when the American colonists were discussing forms of government, the responsibilities of government, and how people and governments relate. One of the members of the European group of philosophes (as they called themselves), Benjamin Franklin, (acting as American representative) started a similar group of philosophes in the colonies that included Thomas Jefferson and James Madison.[1] With the relatively small number of intellectuals in the colonies, to say that they probably interacted would not be out of line. This is not to assert that they agreed on everything (anymore than the European philosophes agreed on everything), but merely to say that they exchanged ideas. While Alexander Hamilton, for example, is not mentioned as being a part of the Franklin circle of philosophes, it can be shown that he was familiar with their writings. In an editorial rebutting a Tory who had expounded on natural rights and the right of the Parliament to tax the colonies, Hamilton stated: "I would recommend to your perusal, Grotius, Puffendorf, Locke, Montesquieu, and Burlemaqui."[2]

Ideas both act upon, and are acted upon by, people and events. The American colonies, therefore, presented a unique opportunity to be a laboratory in several ways. There were vast resources that were mostly untapped, although various countries (through royal courts) laid claim. These royal courts were composed of an aristocratic elite who (as historians have written) fought with each other over resources, and who parried for positions of wealth and influence within their own hierarchy. The developed parts of the world, up to

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[1] Thomas J. Schlereth. *The Cosmopolitan Ideal in Enlightenment Thought: Its Form and Function in the Ideas of Franklin, Hume, and Voltaire, 1694-1790* (Notre Dame: University of Notre Dame Press, 1977).

[2] Alexander Hamilton, *Selected Writings and Speeches of Alexander Hamilton*, ed. Morton J. Frisch (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1985), 19.

the discovery and settlement of the American colonies, were already divided among this group of elite aristocrats. This allowed them to maintain their power over the masses, who did not have access to these resources due to the political power, the economic power, and the social customs (one of which was that the elite were elite by divine providence -- that was the natural order of the world). The resources of the American colonies were sufficient to potentially cause shifts in this established balance of power, depending on who would actually gain control over them. If one assumes that the object of people in power is to maintain their positions of power, then it becomes more understandable why efforts would be expended to prevent the rise of a potentially rival power.

During the time of the Enlightenment (generally the 100 years leading up to the American Revolution), the American colonists were increasingly asserting more independent control over their domain. Their independence from Britain would offer the opportunity to chose a form of government and decide which philosophy would provide the basis for their form of government. Whoever exercised political control through this new government would also exercise control economically over the distribution and/or the use of resources, thus causing a social impact. Independence from the royal court (and the aristocratic elite who maintained their positions through that court and had been benefiting from the colonies through the mercantile system) would create another source of power outside of the hierarchy already in place. In other words, this would change the geometry of the power structure then in place in the world. It would be redefined to accommodate the addition of more people with access to resources and political power. If the new government was structured to allow a large number of people access to political power, and if it adopted a policy that meant larger numbers of people could (potentially) have access to resources for their own use, that would have an impact on the world stage. Recognition of this potential power shift was behind the well-known observation that the American Revolution was the shot heard around the world. There were already peasants in Europe who were upset with the *status quo.* It must have been very scary for the aristocracy to have the peasant revolts happening on their own soil (as opposed to across an ocean).

For most of the eighteenth century, capitalism had already taken root in Europe. Because the American colonies were a part of the British mercantile system, they were not yet experiencing capitalism and its effects, as were the countries in Europe. Mercantilism functioned through the aristocracy, who owned the businesses operating around the world. In the middle of the eighteenth century, Europe and colonial America were still dominated by the traditional land owning classes.[3] These classes controlled the politics, which, of course, were designed to keep them in power. With the spread of the industrial revolution (coupled with capitalism), some of the ruling class lost their fortunes (as well as their hold on power). The ensuing transfer and redistribution of wealth allowed the bourgeoisie to gain some economic power. There was a recognizable opening of opportunity that some recognized and used. Some agricultural reforms (that resulted in increased food production) freed some workers for other employment. With the development of a market economy, and the expansion of those who could take advantage of it, a middle class grew. This middle class (unlike the aristocracy) had an interest in investing its new capital in new industries.

With the growth of bourgeoisie power, came the formation of the Bank of England in the seventeenth century. This powerful group of financiers was willing to underwrite the

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[3] Bill Risebero, *Modern Architecture and Design* (Cambridge: MIT Press, 1983).

debts of the government in return for the exclusive right to print bank notes. With each uccessive war or crisis that increased the national debt, the strength of the Bank of England thus increased. (The bank depended, of course, on the ability of those in debt to service the debt.)

The Age of Enlightenment developed along with these power shifts. The philosophes (generally members of the bourgeoisie) believed, and outwardly expressed, that all men were alike, even though some of them secretly harbored personal biases. They looked for a moral code of ethics by which the people of the world could live in harmony.[4] This pursuit is similar in nature to that done by Plato 2100 years previously, when he wrote his *Republic*. In the case of the philosophes, their quest for knowledge took a different path from that of Plato because they rejected Plato's abstraction of ideas and his metaphysical natural laws of how the earth was created to function.

Metaphysics is the belief that all of creation has an interconnectedness governed by natural laws. To make this interconnectedness function properly (something like a well-oiled machine), it is necessary to pursue the discovery of, and the knowledge of, these underlying natural laws. When Plato wrote about this, he called it pursuing the Good.[5] This metaphysical idea surfaced again during the Renaissance (fourteenth, fifteenth, sixteenth centuries), where the educated elite (encouraged by the Church) developed it as if the Good was God (or derived from God).

When the idea surfaced again in the Enlightenment, the philosophes changed some things. They redefined natural laws in terms of an ideal that they determined by examining

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[4] Schlereth, *Enlightenment Thought.*

[5] The writers of the New Testament of the Bible were platonists who wrote about this platonic concept of the Good as God.

the various cultural elements that could be observed around the world. These observed man-made customs became, for them, "natural law."[6] This differed from Plato's concept of a natural law based on how creation was designed to function by virtue of the fact that Plato was talking about an abstract (unseen) higher order above mankind, and the philosophes were looking at man-made observed customs.[7]

The philosophes tended not to like the abstract reasoning embraced by Plato, preferring a sense-certainty approach based on observed experimentation that was easier to verify. Many subscribed, therefore, to a scientific method developed by Isaac Newton that was based on experimentation and observation, rather than abstract hypothesis. It was their belief that this method could establish a logical and universal analysis in the study of law, ethics, psychology, politics, history, and aesthetics. In this manner they hoped to analyze human society and propose a method of operating, something Plato had done 2100 years earlier when he made such a search and wrote his *Republic*. To do this, they made some assumptions about the nature of man and his universe, based on their concept of the ideal, which was themselves.[8]

Through their rejection of religion in favor of philosophy, the philosophes became relativists who took what they believed to be best from other cultures and tried to create an ideal for society (in the belief that there was a homogeneity of man). In rejecting religion as the basis for a morality common to all mankind, however, they shifted responsibility from the

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[6] Schlereth, *Enlightenment Thought,* 34.

[7] Plato had an ongoing disagreement with Aristotle over being able to know something, and understand it, using abstract thought skills versus a more sense-certain type of approach based on what could be known through observation. (Plato's concept of the Good was a higher level abstract thought that could not be seen.) Several chapters in his *Republic* discuss this, but in chapter xxiv, he discusses cognitive skills, and how to move to higher levels of thought.

[8] Schlereth, *Enlightenment Thought.*

hierarchy of the Church (which they did not like nor trust because of its poor behavioral history) to the conscience of the secular individual. This made man the highest authority. It also required a unity and a uniformity to mankind that, in reality, did not exist.

This eclectic approach to philosophical systems allowed them to be unconcerned about logical inconsistency with the natural laws of the earth that Plato had recognized. They measured mankind by their own criteria, and erected their moral theories on this concept of human unity. While personal conduct had to be justified in terms of social good, the philosophes made themselves the authorities on this by believing, and promoting, themselves as the intellectual elite. For them, mankind's morality rested ultimately on various moral senses, or mental tastes (a sense-certainty rather than an absolute natural law of creation). What was most useful for society would be most useful for men in all countries because there was a tendency to view human nature as being essentially the same at all times and among all nations.[9]

Because the philosophes were an eclectic group of intellectuals, at least one member of this group (which had generally rejected the basic premise of Plato) was a platonist -- Gottfreid Leibnitz (the developer of calculus). Leibnitz believed that all ethics, hence all human society, were expressed in a metaphysically based natural law, something the general Enlightenment Movement rejected. Leibnitz's approach meant that the laws of nature and the natural law of mankind merge; they are premised on eternal norms that are part of creation; this pre-established harmony results from the reason that permeates the world; this reason comes from God. Hence, Leibniz maintained that the law of nature was based upon an

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[9] Ibid.

eternal idea of justice that could be derived both logically and deductively (as Plato included, and as the thinkers of the Renaissance concluded). Natural law, thus defined, becomes an expression of reason rather than personal will; wisdom, is the best use of God's goodness. Rational souls, in this system, seek perfection (in the Good) in obedience to God's precepts (the natural law).[10] He wrote a rebuttal to philosophe John Locke on these precepts that is generally overlooked today, and yet it is key to understanding the difference between many of those of the Enlightenment and Plato.[11]

A member of this eclectic group of philosophes was Adam Smith, who submitted excerpts of his *Wealth of Nations* to members of the group for comment prior to publication in 1776. Benjamin Franklin and David Hume were two of those selected. The philosophes developed a political economy that was international in its outlook. Their basis for this economy was free international market relations, predicated on the assumption that each individual and each country would be operating on an equal basis because all were essentially alike. This penchant of theirs to use themselves (their merchant middle class background) as the ideal and rejecting any deviance as just an abnormality, has been cited by some historians as a weakness in their writing of history, as well as their other projects.[12] This same weakness is present in their theory of political economy because it assumes equal bargaining power and equal access to resources -- something that did not exist then and does not exist now.

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[10] Gottfried Leibnitz, *Human Understanding*, ed. George S. Morris, (Chicago: S.C. Griggs and Company, 1888), chapter 10.

[11] Ibid.

[12] Schlereth, *Enlightenment Thought*, 71.

They advocated laissez-faire economic relations between individuals and states as a way to reject mercantilism, something they saw as benefiting the aristocracy.[13] Many of them saw the merchant class (from which they came) as the obvious promoters of this new economic outlook, possibly because they were then benefiting from the growth of capitalism and industrialism at the expense of the aristocracy. The philosophes, therefore, would not want to see restrictions placed on the ability of this class to improve its position. They saw this improvement as promoted by individualism (something that Plato would see as working contrary to the societal contract of responsibility to others).

Because their political thought began with men as equal individuals, not as citizens of states, they looked at governments as "necessary evil" man-made arrangements. For this reason, they wanted to do away with nation-states and make all people citizens of the world functioning in a free market system; everyone on an equal basis. They assumed that all men had the same interests and obligations, participated in the same human experiences, and shared the same truths, values, and rights if they were equally liberated, enlightened and free.[14] They, therefore, saw the world as a potential federal republic, based on the homogeneity of men (which does not exist in reality). These assumptions form the basis of Adam Smith's *Wealth of Nations.*

The reason for including Leibnitz in this discussion of the philosophes, and their influence on thought at the time of the American Revolution, and Adam Smith, is to show that some people recognized the flaws in the thinking then taking center stage. While there is no proof that any of the founders of the American Republic read Leibniz or were influenced

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[13] Ibid.
[14] Ibid.

by him, Plato does show up as an influence. When examining the political writings in America from 1760 to 1805[15] it becomes obvious that there was an intellectual thought that did not completely embrace that of the Enlightenment. There were also the recommendations of Alexander Hamilton, as the first Secretary of the Treasury for the new Republic taking its place in the world capitalist market, that were at odds with Enlightenment thought.[16]

The difference in ideologies formed the basis for the political battle in this country over control of policy. This can be seen in the struggle to write the Articles of Confederation.[17] It can be seen in the writings of the debates at the Constitutional Convention.[18] It can be seen in the fight over ratification of the Constitution.[19] It can be seen in the decisions of Congress as they decided the course of the new Republic.[20] One of the participants in this controversy over economic policy was economist Matthew Carey, writing in 1819:

> As a preliminary step, we propose to establish the utter fallacy of some maxims, supported by the authority of the name of Adam Smith, author of *The Wealth of Nations*, but pregnant with certain ruin to any nation by which they may be carried into operation....And in the present instance, the most cogent and conclusive facts bear testimony against the political economist, great as his reputation.[21]

Carey then went on to cite ideas put forth by Adam Smith, and discuss examples of each that had not worked the way Smith had said they would. Carey's son, Henry C. Carey,

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[15] Charles S. Hyneman and Donald S. Lutz. *American Political Writing during the Founding Era 1760-1805* (Indianapolis: Liberty Press. 1983).

[16] Hamilton. *Selected Writings.*

[17] Harry M. Ward. *The American Revolution* (New York: St. Martin's Press, 1995) 54.

[18] Richard D. Brown. *Major Problems in the Era of the American Revolution 1760-1791* (Lexington: D.C. Heath and Company, 1992), chapter 12.

[19] Ibid., chapter 13.

[20] Members from southern states (that relied on imports to meet their needs) generally favored free trade policies while those from the northern states (with developing manufacturers) generally favored tariffs.

[21] Matthew Carey, *Addresses* (Philadelphia: M. Carey and Son, 1819), 11.

wrote several books on this same topic.[22] Former President William McKinley wrote on this topic.[23] The writings that are studied today are those of Adam Smith and others of his philosophy. This has resulted in the tendency to view American history as the development of free trade capitalism, rather than as a struggle between ideologies that influenced who were the haves and who were the have nots.

In studying the various farm problems throughout the history of this country, the farm crisis of the 1980s was another chapter in the ongoing history of agricultural unrest, going back to the colonial period. As sociologist Carl Taylor wrote:

> The American Farmers' Movement has therefore continued and still continues. It is not so much a social structure as it is a body of ideologies and sentiments about a continuing set of issues. These were the issues of an evolving social order, society, or economy. The movement has been, and is most precisely observed in, the dramatic episodes marking its course, because they clearly reveal the issues about which it revolves and the ideologies and sentiments which constitute its norms. These ideologies and sentiments did not arise anew with each farmer upheaval; they have been in existence in all of the periods between episodes and are still in existence.[24]

Whether scholars discuss Shays Rebellion, the Whiskey Rebellion, the tobacco farmers' rebellion, the Populist Movement, the Nonpartisan League, the farmer and farm worker movement, or the farm problems of the last sixty years, the common thread running through each of these various crises was individual and group grievances. Their expectations of what should be happening were not being met. Those expectations were based on

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[22] Matthew Carey, *Essay on the Rate of Wages* (Philadelphia: J. S. Skinner, 1835), *The Past, the Present & the Future* (Philadelphia: J. S. Skinner, 1848), *Principles of Political Economy* 3 vols. (Philadelphia: J. S. Skinner, 1837-1840), *The Harmony of Interests* (Philadelphia: J. S. Skinner, 1851), *Principles of Social Science* 3 vols. (Philadelphia: J. S. Skinner, 1858-1859). *The Slave Trade Domestic & Foreign* (Philadelphia: J. S. Skinner, 1853), *The Unity of Law* (Philadelphia: J. S. Skinner, 1872). Reprinted New York: Augustus M. Kelley, 1967.

[23] William McKinley, *The Tariff in the Days of Henry Clay and Since: An Exhaustive Review of our Tariff Legislation from 1812 to 1896* (New York: Henry Clay Publishing Co., 1896).

[24] Carl C. Taylor, *The Farmers' Movement 1620-1920* (New York: American Book Company, 1953), 500.

something. What was it? Why did they have these expectations? They looked at their economic situation and believed it should be different. The farm crisis of the 1980s was no different in this respect.[25]

But from another respect, the farm crisis of the 1980s was different because it was more than the problems involved with establishing a monetary and banking system that would accommodate the farming sector, as had frequently been part of previous farm crises up through the 1930s. The last great farm crisis of the 1930s had seen the expansion of the Farm Credit System from its original land bank inception of 1916 to the Production Credit Association for short term lending and the Bank for Cooperatives to finance farmer cooperatives. By 1968, the last of the government capital that had established that system had been retired, removing the government from some control over the "purse strings." If the farmers finally had a lender that could handle their financial needs and erratic income, and the major monetary and banking problems had been worked out, what was it that was different about the farm crisis of the 1980s? The answer goes back to the beginning of the country, as do aspects of the other major farmer protests.

The American Revolution has been called the shot heard around the world. This was the opening up of resources to a multitude of people, former subjects of the British royal crown and aristocracy, at a time when capitalism and the industrial revolution were greatly

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[25] David Satzmary, *Shays' Rebellion: The Making of an Agrarian Insurrection* (Amherst: University of Massachusetts, 1980); Thomas Slaughter, *The Whiskey Rebellion: Frontier Epilogue to the American Revolution* (New York: Oxford University Press, 1986); Christopher Waldrep, *Night Riders: Defending Community in the Black Patch 1890-1915* (Durham: Duke University Press, 1993); Lawrence Goodwyn, *The Populist Movement: A Short History of the Agrarian Revolt in America* (New York: Oxford University Press, 1978); Robert L. Morlan, *Political Prairie Fire: The Nonpartisan League, 1915-1922* (St. Paul: Minnesota Historical Society, 1985); Patrick H. Mooney and Theo J. Majka, *Farmers' and Farmworkers' Movements: Social Protest in American Agriculture* (New York: Twayne, 1995).

expanding opportunities for the middle class in Europe. The immediate questions became: who would be in control of the government, and who would be favored with the policies?

The Constitutional Convention, and the various state conventions, began addressing who should be in control of the government.[26] This debate immediately developed into an ideological battle between the Federalists and the Antifederalists. Policy struggles went on from there.

One of the first questions for the new American government, while still operating under the Articles of Confederation, was what should be done with the large areas of land claimed by six of the states. In an agreement forced by the seven states that did not hold large land claims, the six states ceded their western lands to the federal government. This land became public domain. The federal government, after surveying and platting this land, opened it up to settlement.

Did the opening of public domain to settlement, coupled with both the ideas of the Revolution concerning freedom and the change from mercantilism to capitalism, provide opportunities advantageous to farmers? Were they like the serfs freed from the manors in England with the advent of capitalism and pushed into a monetized system to fend for themselves; were they pushed into the emerging industrial system; or, were they like the southern slaves, freed from bondage with unclaimed resources available but with no access to the means with which to take advantage of the opportunity? What land-use planning did the new country, as a whole, do?

The federal survey system demonstrated a recognition of, and an attempt to, plan.

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[26] Ward, *American Revolution*, chapter 18.

However, speculators took advantage of the situation to drive up prices for their own profit potential, thus interfering with the ability of farmers to access resources for farming and to expect a market price for debt servicing while providing a means to meet their basic needs. This was additionally complicated by the sometimes nonexistent credit terms, and sometimes severe credit terms (such as payment in specie or total balance due in a short period of time). When the government closed the remaining public domain to settlement, with the Taylor Grazing Act of 1934, after just over 140 years, the resulting closed system created the potential for additional pressure on land prices as the population increased. While the public domain was being settled, the politicians and the bureaucrats struggled to organize and stabilize the banking and monetary systems. All the while, there was a continuing policy fight over which approach to use with capitalism: free market or protection.[27]

Iowa was a part of the Louisiana Territory purchased from France in 1803. Squatters started settling the land before it was surveyed and opened for settlement. Believing they had a natural right to develop undeveloped land, they formed Claim Associations to protect their claims until the land could be platted by the government and opened to settlement. Claim Associations were strong social compacts, organized in Iowa by township, that announced publicly who was laying claim to which land. Members of these associations threatened to physically dissuade anyone bidding against the land they had developed when it came up for public auction. Some farmers could manage the credit terms and some could not. Money was scarce, lenders were scarcer. Those coming to settle the public domain had usually

[27] McKinley, *Tariffs 1812-1896.*

liquidated their assets to make the trip and to buy land.[28] The Panic of 1837 was hard on those with heavy debt loads. Iowa settlers were familiar with the banking problems other parts of the country had experienced. When they held a constitutional convention to prepare for statehood, the delegates became mired down in debate over the chartering of banks. A committee finally worked out an agreement to prohibit corporate banking. This allowed the territory of Iowa to complete work on its proposed constitution and become a state in 1846.[29]

By the time of the Greenback Movement, Iowa farmers were heavily indebted for the purchase of land and improvements. There had been large losses during the Panic of 1857 and again during the 1870s. The partial crop failure of 1894 was followed by abnormally low prices in 1896. Without enough income to service the debt, lenders foreclosed.[30]

President Theodore Roosevelt established the Country Life Commission in 1908 to study the rural problems and make recommendations. One of the recommendations that resulted from the Commission was the congressional creation of the Land Banks in 1916.[31] As the new system of Land Banks was getting organized nationally into territories to provide credit to qualified farmers, the United States entered World War I. Commodity prices were high during the war, and stayed high until 1922 when the government stopped loaning money to Europe to purchase food. Farmers began getting behind in their loan payments and foreclosures increased.[32]

In 1923, the Federal Intermediate Credit Banks were formed for short term lending,

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[28] Howard H. Preston. *History of Banking in Iowa* (Iowa City: State Historical Society of Iowa, 1992).
[29] Ibid.
[30] Ibid.
[31] W. Gifford Hoag, *The Farm Credit System A History of Financial Self-Help* (Danville: Interstate Printers & Publishers, Inc., 1976), 211.
[32] Ibid.

as well as the Funding Corporation to handle the sale of securities for the newly forming Farm Credit System. After the stock market crashed in 1929, prices declined even more. By 1933, the federal government took further action to help the farm sector. The system of Land Banks received an infusion of $125 million (nationally) to purchase farm loans from other lenders. Their associated Production Credit Associations were created as the distribution system of the Federal Intermediate Credit Banks to finance short term operating expenses, thus completing the basic form of the new national farm lender: the Farm Credit System. Also in 1933, Congress passed the Agricultural Adjustment Act to put a floor under commodity prices so farmers could service their debts. This same year the governor of Iowa, Daniel W. Turner, issued a moratorium on the foreclosure of farm mortgage loans.[33] Foreclosures still took place, but they slowed, and the expanded Farm Credit System took on the lion's share of the farm debt by refinancing loans held by other farm lenders.

An aspect to the ongoing debate over policy was whether to protect income. Alexander Hamilton's, *Report on the Subject of Manufactures,* had recommended a protective tariff in order to prevent Britain (and other countries) from dumping cheap goods in America while efforts were underway to establish the manufacturing sector, its currency and banking, and its credit for trading.[34] In order to pay its debts, the new Republic needed income. If another country could dump cheap goods, thus forcing down prices, generating income would be a problem. The tariffs would also provide income to the federal government for operating.

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[33] Preston. *Banking in Iowa.*

[34] Alexander Hamilton. *Report on the Subject of Manufactures* submitted to the House of Representatives January 15, 1790.

As the ideas of Adam Smith and free trade became more widely known, the debate over protection played out in an almost schizophrenic approach to tariffs.[35] This policy debate, coupled with the ongoing problems of establishing a stable banking system and a currency, was reflected in the financial situation of the farm sector. The Agricultural Adjustment Act of 1933 was a compromise settlement of both policies. It provided a floor price for enumerated commodities, but the price would be maintained by the entrance of the government into the market to purchase commodities sufficient to maintain the floor price. The last time this thinking prevailed in farm policy was 1948.

By 1953 the policy of supporting farm prices with a minimum price that would attempt to cover the average costs of production (as calculated by the USDA) was being overridden (or not allowed to operate as it was originally written into law) by successive farm bills. These farm bills were written to support a minimum price that was less than the USDA-calculated average cost of production, and would sunset after a few years (five was the average). This practice of sunsetting legislation serves to bring the matter before Congress from time to time so it can be examined. Congress can choose to continue the legislation as it is written, or it can choose to write something else. In the case of farm prices, Congress chose to continue to pass farm bills that would reduce the minimum support prices to farmers for enumerated commodities. This practice continued to override what came to be called the permanent farm legislation.[36] By the time the 1996 farm bill was being written to continue to override the permanent farm legislation, only the strong lobbying attempts of some farm groups -- the American Agriculture Movement being one of them --

[35] See the works of Henry C. Carey and William McKinley.
[36] Title 7 United States Code Annotated.

prevented a complete repeal of what remained of the permanent farm legislation. The permanent farm legislation through 1948 still partially remains in Title 7 United States Code Annotated, but it is not in force (to support a minimum price to farmers that would cover the average cost of production) as long as there is a farm bill in effect whose language says it takes precedence over the permanent legislation.

The permanent farm legislation was enacted to help farmers service their debts. The logical question would be: why override such legislation? The answer has to do with ideology. In 1944, the Committee for Economic Development (CED), comprised of representatives from the two hundred largest companies, was formed to plan the economy for after World War II. To the present time, they continue to issue policy recommendations. They issued recommendations for agriculture policy in 1944, 1955, 1957, and 1962. Each of these policy statements made the same recommendation: resources (including people) should be removed from farming by lowering the income and forcing people out. Farmers learned of these reports and lobbied against them. Then, in 1971, the U.S. Department of Agriculture issued what has come to be called the Young Executive Report. This report, written by a committee of young executives chaired by then Under Secretary Richard Lyng, echoed the policy wishes of the CED by saying a few corporate farms could meet the food needs of the country.[37] This was an indication that the USDA was now in favor of the policy of reducing the number of farmers. (Copies of the report were so difficult to obtain that Rep. Melcher entered it into the *Congressional Record* so it would be available to others.)

Succeeding farm bills continued to lower the support prices for enumerated

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[37] *Congressional Record--House*, June 21, 1972.

commodities. By the time of the 1996 farm bill, more of the permanent farm legislation (that had supported commodity prices) had been repealed, and the rest of the permanent farm legislation had been overridden completely. A summary of the 1996 bill, released by the USDA, stated that this represented a reversal of previous farm policy to support prices (even though the support had been gradually reduced). Now the prices would be completely subject to the market. Iowa farm income (and national farm income), tracked from 1949 to 1997, reflects the steady downhill trend of the decreasing price supports.

In addition to the Young Executive Report of 1971, Congress passed a major piece of legislation that revised the Farm Credit System for the first time since 1933. One of the changes was the manner of appraisal for assets. Market value would now be used, increasing the amount to be borrowed during an up market. Another major change was the amount that could be borrowed against this new appraisal method: an increase from 65 percent to 85 percent.[38] The 1970s saw other changes for the Farm Credit System. Loss sharing agreements were implemented between banks within districts and the districts themselves, making each entity in the system liable for losses anywhere in the system. In 1978, regulations were approved for Consolidated Systemwide Bonds.[39] With this change, each entity in the system was now liable for the entire debt of the system nationally, not just its own. (Land prices at the time were 78 percent higher than five years earlier.)[40]

After 1980, the Farm Credit System began using a tiered interest rate system. Under this system, the loans were segregated according to risk (as calculated in a worksheet).

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[38] Hoag, *Farm Credit System.*

[39] *45th Annual Report of the Farm Credit Administration and the Cooperative Farm Credit System 1977-78* (Washington, D.C.: Government Printing Office, 1978).

[40] Ibid.

Those with the lowest perceived risk accrued interest at the lowest rate, while the other categories of loans accrued interest at progressively higher rates.[41] All of this was happening as the interest rates generally were going up due to efforts by the Federal Reserve to wring inflation out of the economy. Farmers could not cash flow this expense, so they borrowed against the rising equity of their land (as the value was going up).[42] Congress increased the percentage that could be loaned to 97 percent. This time, instead of supporting farm income as had been done in the 1930s, Congress took other actions.

In 1983, Congress passed the International Lending and Supervision Act. This act mandated an accounting change for Savings and Loans, banks, and the Farm Credit System in the method of accounting for potential loan losses. New regulations for the Savings and Loans were written first and implemented. Regulations for the Farm Credit System were completed and implemented in the summer of 1985. When these new accounting procedures were implemented (and accompanied with new loan analysis forms that doubled the expenses in the calculation), the estimates for potential losses began rising quickly. As these estimated potential losses were booked, they had the effect of increasing the operating expenses of the system. As the operating expenses went up, so did all of the interest rates to the borrowers. Because farmers were already having trouble paying their interest expense due to low incomes, the increased rates resulted in an increase in farm liquidations. An interesting post script to this period of time can be found in a1992 book published by the Farm Credit System Assistance Board: *Anatomy of an American Agricultural Credit Crisis.* It contends: "The

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[41] As an employee of the Farm Credit System from 1971 to 1986, I saw associations within the system go to this tiered interest rate method at different times, but they all eventually used it.

[42] *49th Annual Report The Farm Credit Administration and the Cooperative Farm Credit System* (Washington, D.C.: Government Printing Office, 1983).

FCS adopted an aggressive campaign to push delinquent borrowers into foreclosure."[43] They were delinquent because of their low income and their increasing expenses, neither one of which they could control.

Land values began going down. Because the Farm Credit System was the largest holder of farm mortgages, their actions influenced what other farm lenders did. When the Land Bank began devaluing their benchmark farms, and foreclosing, the land values began coming down. Free trade economists will provide a number of reasons for the value of farmland declining, but they also acknowledge that the glut of foreclosed property was a depressing factor.

The 1985 farm bill further lowered support prices for commodities and created the Conservation Reserve Program and the Wetlands Preserve Program to take land out of agriculture. The 1990 farm bill lowered support prices more. The 1996 farm bill eliminated them.

The Farm Credit System continued to book its rising potential losses and aggressively push its borrowers into foreclosure into 1987. By the end of 1987, Congress ordered the Farm Credit System to transfer $196 million from the Reserve for Loss account back into their income account because the actual losses had not been as great as the new accounting methods and the new loan analysis forms had calculated. Those loans that were already in the process of being foreclosed were liquidated. As the farm borrowers of the system (who were also the stockholders) were being liquidated, no security holders (investors) of the system lost any money, and all payments to them were timely.

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[43] Kenneth L. Peoples, et al., *Anatomy of an American Agricultural Credit Crisis* (Lanham: Rowman and Littlefield Publishers, Inc., 1992), 42.

Iowa Farm Trends, compiled by the Iowa State University Agriculture and Home Economics Experiment Station Cooperative Extension Service, indicates that from 1964 to 1987, Iowa lost 32 percent of its farm operators. All age categories showed a decline. Personal income data for the state shows that between 1969 and 1997, personal income rose 548 percent (not adjusting for inflation). Farm income in the same timeframe rose 152 percent (not adjusting for inflation). Farm income in 1980 was lower than in 1969 by over 50 percent. Farm income in 1983 was negative. Rural areas thus experienced a loss of buying power. When farm income statistics are adjusted for constant dollars in 1989 equivalents, there is a net income loss of 38.03 percent. The reduction in crop income was 50.78 percent and the loss in livestock income was 37.38 percent. When the farm expenses from 1970 to 1989 are adjusted in terms of 1989 dollar equivalents, the largest change was in real estate interest (up 124.29 percent).[44]

As farmers experience financial problems, so do other businesses in rural areas. A 1985 report on the farm crisis, prepared for the Iowa Legislature, anticipated a loss of 25 percent of the firms in the agribusiness sector.[45] For rural areas that do not have a lot of businesses because of the sparser population, losing 25 percent of their businesses can be devastating. There could be additional losses due to factors not considered in the report. Not taken into account in the report was the land taken out of production through the Conservation Reserve Program and the Wetlands Preservation Program. Less land in farm production would reduce the expense of inputs for farmers, but would also generate less business for agribusinesses.

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[44] "Iowa Farm Trends" (Ames: Extension Publications and Distribution, 1991).

[45] James Schwab, *The Farm Credit Crisis in Iowa* (Oakdale: The Legislative Extended Assistance Group The University of Iowa, 1985).

Rural Iowa counties, more dependent on agriculture than urban counties, showed a population loss in all age categories between 1980 and 1990, just as the farm census showed reduced numbers in all age categories for the same timeframe. The more urban counties and the state as a whole also showed population loss, but two of the categories did not show a decline: 25-44 and 65 & older.[46]

In 1989, the Iowa Business Council in conjunction with Iowa State University issued a report on the future of livestock production in Iowa. It recommended a combination of production systems: farm family production, farm family production as part of co-ops or contracting operations, and farm families as part of integrated operations. The report expressed concern that Iowa was not doing all it could to attract meat processing jobs to the state. The report contended that these new jobs could be expected to pay $18,000 (including benefits).[47] (The poverty line for a family of two was around $16,000.)

Also released in 1989, by the Iowa Newspaper Association, was the Iowa Future Plan to restructure the state economy to enable it to participate in the newly emerging world market. The position of this report was that these emerging markets would be developing quickly, and Iowa needed to be prepared.[48] Congress passed the North American Free Trade Agreement (NAFTA) in 1993, and the General Agreement on Tariffs and Trade (GATT) the following year. These free trade agreements provide the structure envisioned by the philosophes of the Enlightenment for a world wide free trade market.

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[46] Department of Commerce, Census Bureau, *Census of Population Social and Economic Characteristics of Iowa*, 1980 and 1990 (Washington, D.C.: Government Printing Office, 1990).

[47] Carol Elliot and Kurt James, *Job Creation in Animal Agriculture in Iowa* (Ames: Iowa State University Press, 1989), 3.

[48] "Iowa's Future A quality economy for tomorrow: A Six Point Action Plan" (Menlo Park: Center for Economic Competitiveness, 1989), 3.

An examination of the different ideologies that can be found in the farm sector casts light on the basis for disagreement in farm policy. Authors Christopher Hamlin and Philip T. Shepard examined ideologies in the farm sector in their book *Deep Disagreement in U.S. Agriculture: Making Sense of Policy Conflict.* They classified the ideologies and the motivations into three categories: conventional productivist, ecological progressivist, and radical humanist.[49] According to the authors, conventional productivists are an outgrowth of the Enlightenment free market system. Ecological progressivists want more expert management of all aspects of society because the compromises required of free markets fail to assure wise use of resources. Radical humanists are linked to ecological progressivists in their critique of the industrial revolution, but humanists are more concerned with the effect on people and culture. In other words, both radical humanists and ecological progressivists diverge from conventional productivists on the point of free markets. This is the point of divergence that has been at work in this country since its founding.

Hamlin and Shepard saw this divergence of ideology as a fracturing of the societal contract to the point that the state would become increasingly unable to govern because a consensus could not be reached. They appeared to assume that there would be an effort to reach a consensus. If the proponents of one ideology can gain sufficient political power, then a consensus would not necessary. There will, however, be unrest as long as there are individuals that believe in a different ideology than the one in power.

These authors pointed out the extent to which people in each of these categories differed from the others. These differences can be seen in the various farm movements in

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[49] Christopher Hamlin and Philip T. Shepard, *Deep Disagreement in U.S. Agriculture Making Sense of Policy Conflict* (Boulder: Westview Press, 1993).

this country since colonial days. They can be seen at work during the 1980s. And they can be seen at work today.[50] This makes it very important to understand the basis for each (which will be discussed in Chapter Five).

Both secondary sources as well as primary sources were used in this thesis. The primary sources included Farm Credit System documents and records, statistics from the Economic Research Service of the United States Department of Agriculture, *Code of Federal Regulations*, and writings of Alexander Hamilton, and Gottfried Leibnitz, among other historical figures. Secondary sources included historic, economic, and sociological analyses of prior farm movements as well as a time line of American history.

The farm crisis of the 1980s appears to be the culmination of the political battle for control over policy, based on differing ideologies. All of the recommendations for restructuring agriculture (beginning in 1944 with the first CED report) were carried out, with the expected result of reducing the number of farmers because this was seen as being efficient under the free trade approach to capitalism. Analyses of the situation by those who were educated in free trade economics can be expected to follow the reasons for the restructuring in the terms of free trade economics. Their ideological beliefs are such that they see this as the only rational course for agriculture. As the 1993 Hamlin and Shepard book explains, those who disagree with this belief have become, for all practical purposes, disenfranchised. As agriculture finishes its restructuring, the differences in these beliefs need to be recognized and dealt with. At the very least, this policy struggle needs to be included in school curriculums in order for students of American government and history to understand its agricultural economic problem. As Hamlin and Shepard point out in their work, this is not

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[50] Ibid.

a case of accepting the other side once one has been sufficiently "educated" to it; the differences involvė very deeply-held ideologies. The situation is very serious. More work needs to be done in this area.

CHAPTER TWO

HOW DO LOAN FUNDS ENTER THE AGRICULTURE SECTOR

Were loan funds always necessary

Land planning used to be simple: there was a group of aristocratic elites who controlled the resources (and up through medieval times provided protection for the others), and there were the rest who did the work and survived as best they could. The discovery and settlement of America marked an opening in the opportunity to acquire resources, such as land, because it was outside of the closed system that had existed. The question became one of how to accomplish this acquisition.

In addition to putting the land up for sale, there was a question of cash or credit. Even when credit was allowed to acquire land, it was not always available. Farmers especially had a problem. The availability of land and the development of a banking system to serve the needs of farmers were pertinent to the ability of agriculture to develop beyond the self-sufficient yeoman status.

The American colonists came from a world with a hierarchical social order that dominated access to resources (including land and capital). The American colonial charters were grants of land from the Crown that carried with them specified conditions. The resulting colonial settlements were founded on roughly three different types of arrangements: the township system of New England; the extended feudal system pattern of the middle colonies; and the scattered slave holdings of the South, interspersed with manorial estates.[1] The New England system required the settlement of towns under the direction of the parent colony, while the individual in the South was allowed almost total freedom to select land with no order to a settlement.[2]

The New England system was based on the English manorial system but without a manorial head. A group, known as "the proprietors," would secure from the colonial legislature (under the control of the Crown) a right to establish a community. The community continued under the control of the proprietors and their heirs, acting as a whole or through a town council. Townships were surveyed in advance of settlement, and were settled in accordance with an agreed plan, thus possibly the first land planning in America. The land was assigned to settlers, usually by the proprietors, and tracts were customarily reserved for the church and for general village purposes. Common lands for pasturage and wood, and in some cases for tillage, were retained by the proprietors either in the form of "commons" available only to the proprietors, or of "town commons" available to all residents. This practice was a carryover from the feudal estate system. No charge was made for the lands, but settlers were required to pay taxes for support of local institutions. Loan funds for the

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[1] Murray R. Benedict, *Farm Policies of the United States 1790-1950* (New York: Twentieth Century Fund, 1953).

[2] Benjamin Horace Hibbard, *A History of the Public Land Policies* (Madison: University of Wisconsin Press, 1965).

average farmer in this system would not have been necessary. This began to break down in the early eighteenth century, largely as a result of growing speculative development.[3]

Unlike Europe, there were vast amounts of unsettled and unclaimed land in America. Opportunities existed here that did not exist in Europe because Europe was a closed system, in terms of available land. The land system did not officially close in America until the Taylor Grazing Act of 1934, although much of it was removed from the public domain around the turn of the twentieth century when it was put into parks or under the direct supervision of the government.

The middle colonies were grants made to individuals such as the Duke of York. Prior to the Duke of York being granted proprietorship of the Dutch colony New Amsterdam (later New York), it had been founded as a fur trading settlement by the Dutch West India Company. The emphasis in the New York settlement was on trade in furs and other items, rather than on colonization and the development of agriculture. To stimulate migration to the colony, extensive grants were made to several stockholders. The plan contemplated a number of huge estates along the Hudson. The grantee was to have practically the authority of a feudal lord. He was given authority to organize the courts and had jurisdiction over the property and even the lives of the tenants. Sale of the lands to the operating farmers was not contemplated. (Thus the farmers in this system had no need of loan funds to purchase land.) Because the form of settlement attempted to establish the medieval institutions of Europe, it was hard to convince men to accept feudal vassalage when they could go to a neighboring colony for somewhat better terms. When the Duke of York took over (after the Dutch in 1664), no immediate change in the land law was made. By confirming pre-existing

[3] Benedict, *Farm Policies.*

privileges, a fully developed manorial system was established in the colonies. It was not popular with those who were not among the elite.[4]

The Duke of York, in 1680, leased Pennsylvania and Delaware to William Penn for 10,000 years. Lands were sold to settlers in these areas for what are termed modest prices until Penn's heirs raised the prices. Settlers then went west in search of cheaper land.[5]

The colonies from Virginia on south took a different approach to land settlement because of the widespread adoption of the slavery system, which expanded the original small farming units to large manors. Once established, these manors continued under laws of primogeniture.[6]

Generally, as settlers moved west, they took their form of land settlement with them. One of the first questions the new country would have to resolve (after the Revolution) was which pattern of settlement to follow. The method that would be adopted would determine land distribution, settlement patterns, and development.

Public domain originated during the period 1781 to 1803. It included all lands that were at any time owned by the United States and subject to sale or other transfer of ownership under the laws of the federal government.[7] After the Revolutionary War, the new Republic had land east of the Mississippi River, south to Florida, and north to the Great Lakes. There were disputes between some of the new states over who was in control of this land, going back to their colonial charters. The idea of "public domain" originated from the insistence of the six states with no western lands that the seven states with these claims

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[4] Ibid.
[5] Ibid.
[6] Ibid.
[7] Hibbard, *Land Policies.*

surrender them to the new national government. Spearheaded by Maryland, these states refused to sign the Articles of Confederation until the demands were met. It was considered a practical move, since control over these lands implied an obligation to defend them against attack. The public domain would be the common property of the States of the new union at a time when they needed something to bind them together.

Congress soon came under pressure to establish a policy for settling these lands. The lands were used as payment to soldiers and officers who had fought in the war. And, settlers were pressing westward, freed from the restricted settlement east of the Appalachians that had been imposed by Britain. Settlements in these new areas would help serve as buffers against attacks by Indians, Britain, and Spain.[8]

Benjamin Hibbard lists seven reasons for the Congress to act quickly in the disposition of the public domain[9]:

1. Congress had promised land in payment to soldiers and officers who fought in the War.
2. Because the Articles of Confederation conferred no taxing power on Congress, it needed a way to secure revenue to both pay the War debt as well as to function.
3. Settlement would address the question of defense against the Indians.
4. The western settlements (on the other side of the mountains, were only loosely connected to the new Republic. Their allegiance could shift to a foreign power.

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[8] Harry M. Ward, *The American Revolution* (New York: St. Martin's Press, 1995), 294-297.
[9] Hibbard, *Land Policies*, 32-34.

5. A form of government needed to be determined for the new territory.
6. The property needed to be disposed for the public benefit.
7. Settlers were illegally pouring into the new land.

In the Land Ordinance of 1785, the national government decreed these areas to be public lands to be sold to raise much-needed money. The sales would also provide the potential opportunity for land ownership, something that was considered important to having a voice in the new government. There was already a difference of opinion as to the value of land. The settlers pouring into the new public domain not only considered it their right to settle that land, but they also believed the land had little value until it was developed. This was a different idea than those who wanted to sell the land to raise money.

The public domain was later enlarged to include the Louisiana Purchase (1803), the acquisition of the Floridas (1819), the Oregon Territory (1846), land from Mexico (1848), and the Gadsden Purchase (1853). The amount of land to be settled was vast, and the new republic offered new potential not seen before, it was noted that:

> Possibly never in the world's history has a new government, representing so few people, had so free a hand in deciding what kind of an agricultural economy it wanted to develop on so large an area of rich and reasonably accessible lands.[10]

Congress was to regulate the granting and settling of the lands, so the Ordinance of 1785 began the process. Part of the process included settling prior private claims. The Supreme Court took the position that private property was not affected by the change of sovereignty. Property laws had developed over a long period of time. They were also incorporated into the political theories of John Locke (a member of the Enlightenment that

[10] Benedict, *Farm Policies*, 5.

had influenced some American intellectuals). Congress, therefore, was not starting from scratch as it instituted its policies for the public domain.[11] The 1785 ordinance, in essence, adopted the New England system of platting -- called the federal land survey system -- prior to opening the land to settlement. Under this system, surveyors divided the land into townships that were each six statute miles square with lines running due north and south and east and west. There was progressive numbering of the ranges, and sections numbered one to thirty-six. Because of the curvature of the earth (which would make the townships trapezoidal in shape), the townships are offset at periodic intervals.[12] In every township, the United States reserved sections 8, 11, 26, and 29 for future sale. As chairman of the committee to devise a plan for the public domain, Thomas Jefferson liked the southern land management system of using government land offices for title claims, registration, and payment. He proposed that both northern and southern interests would be served if half of the townships were to be sold in their entirety (to companies who would then manage the sales), while the other half were sold in sections of 640 acres each.[13] Section 16 in each township was set aside for local public schools. Commissioners of the loan offices of the states were to sell alternate townships in whole at public auctions. Those between were to be sold in sections. The Secretary of War was directed to take one seventh of the townships, by lot, to be reserved for veterans of the war. The minimum price was one dollar in specie, or its equivalent in loan-office certificates of liquidated debt of the United States. Full payment was due at the time of sale, limiting the number of individuals who could acquire land to

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[11] Hibbard, *Land Policies.*

[12] Rutherford Platt, *Land Use and Society: Geography, Law, and Public Policy* (Washington D.C.: Island Press, 1996).

[13] John Opie, *The Law of the Land: Two Hundred Years of American Farmland Policy* (Lincoln: University of Nebraska Press, 1987).

those who had the means of payment in specie. At $1.00 per acre, 640 acres would be $640; a whole township would be $23,040. A yeoman farmer did not have this money. (In 1776, Jefferson had suggested that yeoman farmers be given the land free to develop. He lost that argument.)[14]

An amendment to this 1785 ordinance was passed in 1787 allowing for terms of credit where one-third would be paid up-front, and the rest was due in three months. This still limited access to those who had income sufficient to make the payment in the time required. Farmers generally could not manage the credit terms.[15]

Farmers had been accustomed to a practice of trading what they produced (or labor they supplied) in exchange for goods they needed but did not produce themselves. This left them with little specie -- and, in fact, little specie was available.[16] Succeeding land acts all dealt in some manner with how to make land available to more individuals. Various credit arrangements were tried, but to those who saw little cash coming their way, opportunity was limited. Little land was sold before 1800. Sales increased until the war of 1812, and then tapered off during the war. They reached their peak under the credit system in 1819. The credit system was largely a failure, though. It had not produced the revenue expected. It had not promoted the interests of the settlers. It had not prevented speculation. It had created a large class of landholders so hopelessly in debt that it took twelve years of various acts to clear away the wreckage.[17] In 1820, a system of cash sales began. The minimum purchased

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[14] Ibid.
[15] Benedict, *Farm Policies.*
[16] Satzmary, *Shays Rebellion.*
[17] Hibbard, *Land Policies.*

was reduced to eighty acres. At $1.25 an acre, the price was $100. More people were able to pay this.

Settlement patterns reflect an interaction of physical, cultural, and legal characteristics.[18] The land survey system established the grid pattern that would be imposed on the land, as well as its availability for purchase and settlement; the culture of the settlers would influence the types of settlements; and the physical characteristics of the land would determine its suitability for how it could be used. The agricultural patterns of the North Central parts of the country, up to the 1990s, reflected the public domain policy. The farming unit was some multiple or subdivision of a quarter section. Roads tended to follow section lines. The farms developed under this plan were predominantly family farms, with the labor performed mainly by the farmer and his family.

Settlers moving into undeveloped areas need infrastructure. This is true today as new subdivisions are developed, and it was true as the public domain was settled. One of the controversial measures taken by the government to both promote infrastructure development (railroads mostly, but also roads and canals) and settlement was the practice of giving public lands to the builders of the infrastructure (such as railroads) to sell for financing. It generally worked in the following fashion:

> To accomplish this the companies were given alternate sections of land, in a checkerboard pattern, to a distance of 20 miles on each side of the line....The law provided that lands not sold within three years after completion of the railroad should be subject to preemption and should be sold to the preemptors by the railroads at $1.25 per acre. Under these acts the Union Pacific obtained some 12 million acres of the public domain and the Central Pacific about 10 million. Later grants to the northern and southern lines were even more extravagant....The making of new grants was terminated in 1871 after intense opposition by settlers and the general public.[19]

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[18] Platt, *Land Use*.
[19] Benedict, *Farm Policy*, 69.

The reasons for reviewing the history of settlement patterns in colonial America and the early Republic include: 1) there was a decision to have a policy to provide the opportunity for more individuals to acquire land; 2) there was an organized plan on how to make the land available for settlement; 3) the opening of land for settlement emphasized the need for a banking and a monetary system for the new Republic. Loan funds would also be necessary as the practice of farming progressed from self-sufficient yeoman types of operations to more capital-intensive types of operations producing a surplus for the market. This situation came about as the new Republic moved out of the strict controls of the British mercantile system into the capitalist world market. Credit would be necessary to purchase new technologies that increased the output per individual. These increased outputs would be used both domestically as well as in the world market for trade. These new technologies would increase the amount of land one individual could farm, thus increasing the cost (for both the increased amount of land as well as for the new technologies).

Was agricultural credit available when and where it was needed

Before the Revolution, British merchants and bankers controlled the specie available in the colonies, as well as the credit. Because the colonies were a part of the British mercantile system, they were expected to ship raw materials to Britain for processing, and then purchase their supplies within this same system. This caused an understandable drain of specie from the colonies to Britain. Because of this, the colonies wanted to print their own currency to use in the settlement of their debts. Britain objected.[20]

After the Revolution, each of the states (and sometimes each bank within the states) printed their own money with their own security as backing. This caused the money system of the new Republic to be chaotic. The Continental Congress also printed money during the Revolution to finance the war. This proved rather disastrous when the value fell to almost nothing.[21] Even when money was available (something farmers generally liked), it was frequently devalued by inflation.

When the Constitution was written, it was decided that Congress should take control of the money supply. Article I Section 8 declared that "The Congress shall have power...to coin money, regulate the value thereof, and of foreign coin,...to provide for the punishment of counterfeiting the securities and current coin of the United States...."[22] Those pushing for this control were the ones in favor of a strong central government. Under the Articles of Confederation, the states had exerted their authority to the degree that the central government was almost impotent.[23] Not only was the new Republic in debt for the financing of its Revolutionary War, it needed credit to take its place in the world markets. Credit implied the ability to service debt and to pay bills. Centralizing this authority made sense to those with this vision for the country. The Constitution provided the power to act, but what to do with this authority became a hot topic of debate.

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[20] Ward, *American Revolution.*

[21] Benedict, *Farm Policies.*

[22] Constitution of the United States, Article I, Section 8.

[23] John P. Roche, "The Practical Democracy of the Framers," included in *Major Problems in American Constitutional History Volume I: The Colonial Era Through Reconstruction,* edited by Kermit L. Hall (Lexington, Massachusetts: D.C. Heath and Company, 1992).

In 1791 the first bank of the United States was chartered for twenty years with capital of $10 million. Alexander Hamilton (and those who agreed with him, called Federalists) saw this as an opportunity to wed the interests of investors and businessmen with those of the new government, as well as provide for some regulation of the banking system itself. While businessmen saw the need for strong credit, planters and frontiersmen did not because of the history of privilege they had experienced. They became suspicious of Hamilton and the Federalists. The following explains the reasoning:

> In the eyes of the planter and farmer [who used other mediums of exchange], banks were moneyed monopolies -- aristocratic institutions which encouraged usury, took coin out of circulation, set up false credits and unsettled trade. It was the duty of government to destroy monopolies, not to create them.[24]

They felt this way because of the history of banking. When nations had formerly been engaged in chiefly agricultural pursuits, banking was not the type of power business it is today. As commercial dealings expanded, it became necessary for a more orderly means of handling monetary transactions. While, in the time of Demosthenes, bankers were generally of low origin (such as freedmen or aliens), the interest income and other charges could allow them to rise to wealth and power. As the practice of loaning expanded, those private individuals with the financial means of engaging in banking activities stepped into the void. It is interesting to note that an early instance of forced loans for the purpose of waging a war was the City of Venice in 1171. The citizens were forced to loan money at a low rate of interest and received a stock certificate in exchange, which they could sell or transfer to another. A commission was appointed to manage the payment of interest and the transfers of stock. As countries needed money, and as trade increased, the practice of banking by private

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[24] Benedict, *Farm Policies*, 24.

individuals increased. Table 1 shows the starting dates of some major banks.[25] At the time of the founding of the Bank of England, the government was financially stressed. There were defects and abuses of the tax laws, and the government was not stable. A loan was made to the government for public service. The subscribers received 8 percent interest

Table 1: Starting Dates of Some Early Banks

Venice	117
Geneva	1345
Barcelona	1401
Genoa	1407
Amsterdam	1607
Hamburg	1619
Rotterdam	1635
Stockholm	1688
Bank of England	1694
Scotland	1695
Copenhagen	1736
Berlin	1765
United States	1780
St. Petersburg	1780
Ireland	1783
France	1800

Source: ***History of the Bank of England*** **by Joseph Hume Francis, 1888.**

as well as a fee for management. The Act of Parliament that established the bank called it: "An Act for granting to their Majesties, several duties upon tonnage of ships and vessels, and upon beer, ale and other liquors, for securing certain recompenses and advantages in the said Act mentioned, to such persons as shall voluntarily advance the sum of £1,500,000 towards

[25] Joseph Hume Francis, *History of the Bank of England* (Chicago: Euclid Publishing Company, 1888).

carrying on the war with France."[26] As the government increased its debt, the Bank of England prospered.

These early banks were run by and for private families and/or groups of such. Knowing this, the sentiments of farmers and planters can be understood. They did not see banking, even a bank under the control of the federal government, as something that was beneficial to them.

The First National Bank of the United States did succeed in bringing order to the new Republic's banking activities and established the nation's credit in the world of trade. Southerners, however, continued to be antagonistic toward the bank. No action was taken on renewing its charter when the House was first presented with it in 1808 because of the antagonism of the representatives from the southern states. After enactment of the Embargo and Nonintercourse Acts in 1807, a recession eventually set in. The bank contracted its loans -- as banks do today in such circumstances -- resulting in distress that led to charges of political pressure by the bank to force renewal of its charter. The charter, therefore, was not renewed. There were two consequences to this: (1) The bank had been a restraining influence on excessive expansion of note issues, which then expanded; (2) there was also, then, no means for transferring either public or private funds from one part of the country to another.[27]

Without a unified banking and currency system, there was a spectacular rise in prices, followed by an equally spectacular collapse. Congress was reluctant to vote adequate taxes to finance the war (of 1812), and its source of loans -- the Bank of the United States -- no

[26] Ibid., 55.
[27] Ralph C.H. Catterall, *The Second Bank of the United States* (Chicago: Chicago Press, 1903), 184-85.

conditions were so bad by 1816, the Republican administration took the lead in bringing about a second National Bank -- briefly.[28]

When Andrew Jackson was elected President in 1828, he so hated the national bank, because of his rural roots, that he took the federal money out of it and put it in a few of his favorite private banks. In a letter to Bank president Nicholas Biddle, he stated that his opposition was to banks in general because he considered them unconstitutional and impolitic. (The role of lending in the build up of the South Sea Island speculative Bubble was one of his concerns. Another concern was his belief that paper money had no part in a monetary system.)[29] The private banks that received the United States funds then expanded their note issues (paper currency), which had been under forced contraction due to the required redemption in specie. Under Biddle's leadership, the specie-paying Bank of the United States tended to restrain note issues of state banks to amounts that could be supported by specie. This arrangement tended to draw specie away from the frontier areas and be a deflationary influence. Because state banks could not maintain a large volume of notes in circulation under this arrangement, settlement and business opportunities were aggravated. [30] An additional problem of banking on the frontier was that land could not be used for collateral until it had been surveyed because there was no clear title. Lynne Pierson Doti and Larry Schweikart note in their *Banking in the American West: From the Gold Rush to Deregulation* that some settlers turned to speculation (on a small scale) as a means of income -- even though it was somewhat like playing the lottery. They also noted that even with land as collateral, lending rates could be as high as four or five percent a month; without land,

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[28] Ibid.
[29] Ibid.
[30] Ibid.

they could go higher.[31] Debtors, understandably, thought these rates of interest were high. Farmers wanted more money.

Once Jackson took the federal funds out of the Bank of the United States and deposited them in private banks, the volume of issued notes increased. The resulting increase fueled speculation. A crop failure in 1835 not only hindered the ability of borrowers to service their debts, but it worked against the United States in its balance of trade. Agricultural products had been used on the world market to offset the items imported. When the volume of the agricultural products was reduced by the crop failure, there was a draw down of specie. The Specie Circular of 1836 required the use of specie as payment for public lands, something that was in short supply in the West. The following happened:

> There was little specie in the western areas, and much of the land purchase was made either with bank credit or bank notes, which amounted to the same thing. Naturally these notes, varying widely in value and now unusable in payment for government lands, quickly fell into disrepute. At about the same time various domestic and foreign business houses failed. The English demand for American cotton fell off. By the end of May 1837, every bank in the country had suspended specie payment. Bank note circulation shrank from $149 million in 1837 to $58 million in 1843 (sixty-one percent). This was a larger decrease proportionately than even the disastrous shrinkage in bank credit which occurred between 1930 and 1935 (fifty percent).[32]

The Panic of 1837 followed.

The Sherman Act of 1863 finally created a system of national banks. These banks served the dual purpose of creating a uniform currency, as well as providing an outlet for government bonds at low rates of interest. These banks could buy government bonds, deposit them with the Treasurer of the United States, and receive bank notes worth 90 percent of the current market value of the bonds. The banks could have the use of this 90-

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[31] Lynne Pierson Doti and Larry Schweikart, *Banking in the American West: From the Gold Rush to Deregulation* (Norman: University of Oklahoma Press, 1991), 20.

[32] Benedict, *Farm Policies*, 27.

percent-invested money as well as receive interest on the bonds deposited with the Treasury. If currency was scarce, banks were not likely to have much money to invest.[33] There was a reluctance to expand note issues to address the seasonal needs of farmers, possibly because farmers were seen as a high risk due to the nature of farming, thus putting the bank in a riskier position in terms of redeeming its notes. This defect was not addressed until the Federal Reserve Act of 1914 and the creation of the land Banks in 1916. During the intervening years, the currency supplies were so rigid they caused difficulties for farmers and the farm businessmen as well.

In 1866, a funding act was passed that gave the Treasury authority to convert temporary and short-term interest-bearing securities into long-term bonds. A move such as this extends the payments by making them smaller.[34]

The banking panic of 1907 once again emphasized the need for further banking reform. A national Monetary Commission was set up in 1908 to study the system. The report and recommendations were submitted in 1912. The plan proposed was for a single central bank similar in nature to the First and Second Banks of the United States. President Wilson had already expressed opposition to having the money system controlled by a small group of capitalists. As governor of New Jersey, he had contended that a combination of banks in New York was exercising control similar to a central bank, but without being subject to public responsibility. The compromised solution, between complete government control and complete private control, was passed in 1913, and went into effect in 1914.[35]

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[33] Ibid.
[34] Ibid.
[35] Ibid.

The problem for farmers had been, and still appeared to be, one of insufficient amounts of credit when it was needed, as well as payment terms that could be serviced by them with uncertain income and little cash. In other words, the uncertainty of cash flow of farming operations seemed to require a special type of lender (and/or credit). The Country Life Commission of 1908, established the same year as the Monetary Commission, studied the credit problems of farmers and recommended special lenders to meet these needs.

In 1916 Congress passed the first of several acts creating a lending system for farmers. The Farm Loan Act of 1916 provided for both land banks (to be ultimately owned by farmers) and for joint stock land banks (to be ultimately owned by private investors). As these entities organized and started to make loans, the farm depression of the 1920s began. By 1929, only 17,000 farmers borrowed $64 million from them, down from a 1922 high of 74,000 farmers borrowing $234 million. With each year, an increasing number of farmers became further behind in their loans. The number of delinquent loans and abandoned farms increased each year. So did the number of foreclosures. After the stock market crash of 1929, rural banks began closing because rural credit had dried up. By 1932, only 7,000 farmers borrowed $28 million from the Land Banks. More wanted to borrow, but were unable to do so. The situation became so critical that Congress recapitalized the Land Banks to extend loans by appropriating $125 million to invest in capital stock.[36] With these funds, the Land Banks could extend additional loans to financially strapped farmers, as well as renew and rewrite loans.

In May 1933, Congress passed the Emergency Farm Mortgage Act. This provided

[36] W. Gifford Hoag, *The Farm Credit System* (Danville: Interstate Printers & Publishers, Inc, 1976).

more loan funds to refinance farm debt, it created the Production Credit Associations to finance short-term and intermediate-term debt, and it created the Farmer's Home Administration (FmHA -- the federal lender of last resort). Almost 89 percent of the direct loan funds were used to refinance existing debt: 23 percent went to commercial banks, 14 percent went to insurance companies, 48 percent to other creditors.[37]

This action also benefited other segments of society by freeing their assets. Meanwhile, the Agricultural Adjustment Act of 1933 began providing a floor for commodity prices, thus providing some income support in order to service the loans.

Loan funds become available when securities are issued, through a variety of means. These securities require collateral to lessen the risk for the investors who purchase them. Ultimately, this collateral for farm loans would be the farm mortgages, covered by farm assets. The terms of the loans to the farmer/borrowers involve the cost of the securities (their rate of return to the investors -- as demanded by the investors to cover their perceived risk in purchasing the securities), plus the operating costs of each level handling the funds between the investor and the farmer/borrower. The timing of the payments attempts to match both the cash flow of the borrower and the length of time for which the securities were issued.[38] The lender must be able to make timely payments of principle and interest to the investor in order to keep investors buying those securities. The income for the Farm Credit System was mostly the interest on the farm loans.

The Agricultural Adjustment Act of 1933 (and its subsequent amendments) attempted to provide a floor for farm income that required the U.S. Department of Agriculture (USDA)

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[37] Ibid., 236.

[38] As an employee in the Central Iowa Production Credit Association from 1971 to 1986, it was my job in financial operations to know this and to calculate the interest rate to the borrowers.

to regularly calculate the costs of production (including the average cost of borrowing).[39] This is the section of Title 7 United States Code Annotated that has been consistently over-ridden since 1953 and partially repealed with the passage of the 1996 Freedom to Farm Act.

What was the settlement of Iowa like

The French first explored Iowa in the summer of 1673. Louis Joliet and Father Jacques Marquette (and their five crewmen) are believed to be the first whitemen in the area. It was ceded to Spain in 1763, and returned to France in 1800. As a part of the Louisiana Purchase in 1803, it was subject to the Federal Land Survey method of platting and settlement. Prior to the official settlement in June 1833, there were squatters. These squatters exercised land claims under the rule of "squatter sovereignty." A squatters club was organized to recognize land claims up to 480 acres per individual, and to settle disputes. These claims were respected and generally held in peace until the land could be platted and sold by the government. Rather than being illegal, these claims clubs were "extra-legal" -- meaning that the law had not yet come to those areas when the first settlers moved in. Claim associations, therefore, brought a form of government to a newly-settled area by electing delegates, adopting a constitution, and electing officers.[40] Under Congressional acts in 1800 and 1804, pioneers could buy as little as 160 acres at $2 an acre by paying down one-fourth of the purchase price within forty days after the sale. This credit system was abandoned in 1820, but at that time the land price was lowered to $1.25 per acre and the size of the parcel

[39] Title 7 United States Code Annotated, Section 1301 (B).
[40] Hibbard, *Land Policy*.

was reduced to eighty acres. This was in effect at the time Iowa was opened to settlement.[41] The members of the claim associations would work together when the land came up for public auction. A bidder and an assistant bidder were designated. They had plats of the two townships to be sold at auction with each claimant's name written on the subdivision. These two individuals would take their place beside the auctioneer conducting the auction. As a tract was approached with a name on it, the auctioneer would strike his hammer and give the name to the clerk. The remaining people in the association would stand by in a semicircle ready to take action if another bidder tried to get some already-claimed land.[42] Squatters honestly believed the public lands were a national commons available for settlement and profitable development by the first taker. They believed they should have a prior right of ownership and praise for their hard efforts of development. They believed all "right-thinking" Americans should think this way.[43] This attitude was at odds with people such as George Washington and James Madison. They felt squatters interfered with an orderly process.

By 1835 there were over ten thousand inhabitants in the Iowa country. By the time it was organized as a Territory in 1838, there were 22,859 inhabitants.[44] Sixty Thousand inhabitants were required for a territory to apply for statehood. The 1850 census (after Iowa became a state in 1846) showed a population of 192,214.

American banking was in a very chaotic state at this time. With the failure to renew the charter of the Second Bank of the United States, banking regulation was left to the

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[41] Preston, *History of Banking in Iowa.*
[42] Hibbard, *Land Policy,* 205-6.
[43] Opie, *Law of the Land.*
[44] Preston, *Iowa Banking.*

control of each state. The number of state banks in the country had increased from 330 in 1830 to 788 at the close of 1836. At the time Iowa was being settled, there was an insufficient supply of specie for an adequate money supply. The circulating medium consisted mainly of the notes issued by chartered banks. Their note issue had more than tripled. Erling A. Erickson, in his *Banking in Frontier Iowa 1836-1865,* cited the statistic that in 1837 (a year after the creation of Iowa as a territory), the total currency in circulation in the United States was $217 million -- $149 million in state bank notes.[45] With lax regulation, the quality of the issue deteriorated, particularly in the West and South. Because of the lax regulation, various methods could be employed by "creative" bankers to expand the note issues beyond the legal limit. Erickson cites one of the more common methods as being the organization of a bank largely with nonexistent capital. This could be accomplished by subscribers making a down payment for bank stock, then pledging their partially-purchased stock back to the bank for a loan with which to pay for the remainder of the stock. The books of the bank would show that the capital shares were paid in full, even though only a small amount had actually been paid to the bank.[46] With a bank's profit based largely on the extent of its circulation, efforts needed to avoid redemption of this overexpanded circulation. The Panic of 1837 was followed by a suspension of specie payments and heavy liquidation.[47]

Early banking in Iowa, then, was strongly influenced by the economic and political activities of the time. The disorders generally prevalent were magnified in the areas being settled, to the point of being severe. The following quote describes the situation faced by a

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[45] Erling A. Erickson, *Banking in Frontier Iowa 1836-1865* (Ames: Iowa State University Press, 1971), 9.

[46] Ibid., 10.

[47] Preston, *Iowa Banking.*

pioneer to Iowa at this time:

> Money was scarce and its quality was very poor. The Iowa pioneer brought little money with him to the new home. His former property had frequently been converted into cash to pay for land. Often, therefore, he was land poor. Heavily in debt as he frequently was, he found the period of falling prices which resulted from the heavy liquidation after the panic of 1837 very detrimental to his interest.[48]

Because of this backdrop of chaotic and severe financial conditions, the Iowa pioneers had a strong interest in banking and currency. During the Territorial period from 1838 to 1846, only one chartered bank served the settlers of Iowa: the Miner's Bank of Dubuque 1837-1845. Congress fixed the bank's capital at $200,000 -- divided into 2000 shares at $100 each.[49]

The most important function of a bank in that period was the creation of purchasing power through the issuance of notes for circulation. This task was limited by the bank's indebtedness to twice the amount of its capital stock actually paid in (i.e., the number of shares sold). Because of the experience Iowa pioneers had been through with banks, there was a constant debate over whether to allow any bank to exist or whether to allow the existence of banks with proper regulation.[50] For the time Iowa was without incorporated banks of issue, the questionable issues form other states found their way in. Even some antibank advocates concluded that the prohibition of banks had been a failure.[51]

The delegates to the constitutional convention of 1846, designed to prepare Iowa for statehood, found themselves mired in debate over the chartering of banks. Finally, a committee drafted what came to be called a corporation article that prohibited corporate

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48 Ibid, 2.
49 Erickson, *Banking in Iowa,* 18.
50 Ibid.
51 Ibid.

banking. Iowa was not alone in adopting this method of bank regulation. Nine States and the District of Columbia at this time also considered banking illegal.[52]

Private banking began to develop along the Mississippi River. Early banks considered transactions connected to real estate among their most important functions. Frequently, they were little more than real estate agencies. Land warrants had been granted to veterans of several wars: the War of 1812, the Mexican War, and the Indian Wars. These warrants could be bought and sold on eastern exchanges at eighty-five to ninety cents an acre. Government land offices accepted them in payment for land at $1.25 per acre because that was the price being asked by the government. Settlers buying land from the government at this time had to pay in specie due to the Specie Circular of 1836. Bankers could also purchase land from the government at the regular price of $1.25 per acre and sell it to speculators for $1.75 an acre, making a profit of 40 percent in addition to any profit from potential warrants on the land.[53]

Purchasers of farm mortgages could generally be grouped into five classifications: banks of all kinds, farm mortgage companies, insurance companies, endowed institutions (including land grant colleges), and private investors.[54]

Banks were eventually permitted to do general banking business, but they were limited. The 1858 free banking act of Iowa said that anyone could freely enter into the business of banking, however, the regulations were strict: capitalization required a minimum of $50,000 in advance, the location had to be in towns of greater than 500 population, circulated issues had to be backed by state or federal bonds, loans were limited to four

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[52] Preston, *History of Iowa Banking*, 47.
[53] Ibid.
[54] Ibid.

months and on personal security only, there was double liability for shareholders, a 25 percent reserve was required against deposits, a state-appointed banking commission made inspections and checked for compliance with regulations.[55] Interest and discount were limited to 10 per cent until January 1, 1863, at which time it was to be not over 8 per cent. Usury (the charging of interest greater than the allowed maximum rate) was punishable by forfeiture of the debt.

According to Erickson, prospective bankers shunned the free-banking act, however, the framers of the constitution of 1857 had provided for a state bank with branches. Iowans soon incorporated the State Bank of Iowa, providing the state with its first legal locally issued currency since the Miners' Bank of Dubuque. Erickson deduced from his research that it was probably businessmen who desired a bank of issue to establish sound currency for commercial purposes. By this time, settlers were in all parts of the state. Many railroads provided an outlet for farm products (within the business circumstances existing at the time).

State regulations were under attack by the Populists in the 1890s. There was a two-tiered system of national banks versus state banks in place since the Sherman Act of 1863. The federal legislation appeared to discriminate against western states by giving preference to existing state banks in granting national charters. In 1870, Congress authorized additional western and southern circulation and a partial redistribution of existing circulation. Editorial writers attacked national banks as gold gamblers, stock speculators, and oppressive unscrupulous monopolists.[56] By the time of the Greenback Movement, Iowa farmers were in debt for land purchased and improvements made. Their bad experience with a banking

[55] Erickson, *Banking in Iowa*, 95.
[56] Doti and Schweikart, *Banking in the American West*, 80.

system still not organized, as well as a currency system not yet under control, combined to form a distrust of banks and government. The Panic of 1837 had hurt them. In August 1857, a severe panic started in New York, precipitated by the failure of the Ohio Life Insurance Trust Company. The Iowa banks were unprepared. Land speculation had been rampant, and the credit of banks in the newer sections of the state had been strained. Real estate became nearly valueless, reducing thousands of farmers, merchants, and mechanics to poverty.[57]

Mortgage dealers function by selling their securities to the five classes of investors mentioned previously. Their profits come from cash commissions charged to the borrower and from the ability to sell the mortgages in blocks at lower net rates of interest to the investor (than what was being charged to the borrower). This is similar to the methodology today of getting money into the agricultural sector for use in acquiring assets for production as well as financing operating expenses.

Historians studying the impact of the economic and banking problems to the farm sector agree that there were large losses during the Panic of 1857, and again during the 1870s. The partial crop failure of 1894 was followed by what has been described as abnormally low prices for crops during 1896.[58] This loss of income (as well as assets) would have a negative impact on the ability to service a debt.

As conditions worsened, President Theodore Roosevelt established both the Monetary Commission and the Country Life Commission to study the situation and make recommendations. The recommendation coming out of the Monetary Commission was the Federal Reserve System (similar in nature to the First and Second National Banks) to take

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[57] Preston, *History of Banking in Iowa.*
[58] Benedict, *Farm Policies.*

control of the banking system. The Country Life Commission recommended a special lender to meet the needs of farmers. The Federal Reserve Act of 1913 permitted national banks to loan on farmland an aggregate amount not to exceed 25 per cent of its capital and surplus, or one-third of its time deposits. The time limit for the loans was fixed at five years, and the maximum amount that could be loaned was 50 per cent of the actual value of the property offered as security. The Agricultural Credit Act of 1916 created the Land Bank system.[59]

Up to the time of the creation of the farm loan system, Iowa farmers had not had good experiences with banks. To get around a 1863 national banking law prohibiting real estate loans, for example, national banks would loan money on a farmer's personal note, relying on the fact that he was a land owner to secure the note. The notes, then, could be recognized as investment loans and renewed from time to time.[60] This was a poor substitute for needed capital to purchase land and new technologies to increase output and participate in the market economy.

Did creation of the Farm Credit System and the FmHA improve the situation

As the Land Bank system was getting organized and beginning to make loans after World War I, the rural areas began sliding into a depression. Production had been increased during the war, and continued at these levels after the war because the United States was loaning money to Europe to buy U.S. farm products until such time as they could begin

[59] Hoag, *Farm Credit System.*
[60] Ibid, 276.

producing their own food once again. After 1922, when these payments stopped, the farmers began getting farther and farther behind on their loan payments, and foreclosures increased. In 1923 Congress created the Federal Intermediate Credit Banks (FICBs) as another entity of the newly-forming Farm Credit System (that included the Land Banks) to supply operating credit for farmers. The U.S.Treasury investing in their stock provided the capital. The FICBs were authorized to discount agricultural paper of agricultural credit corporations, livestock loan companies, commercial banks, and savings institutions, as well as to make direct loans to farmer cooperatives on the security of livestock or warehouse receipts or shipping documents for staple agricultural commodities (at 75 percent of their market value).[61] In this same legislation, Congress also created the fiscal agency for the system to coordinate the security issues for loan funds beyond the start-up capital from the government.[62]

At the time, the money supply in rural banks was low, and the declining farm prices made it difficult for farmers to pay off their loans. With commercial banks dependent on deposits for their lending funds, they could not make loans for longer than 30-90 days. This did not fit the farmer's production schedule. When the bank was short on funds, it had a legal right to demand payment on its loans.[63]

When the stock market crashed in 1929, farm prices went down further and faster than they had been. The Federal Land Banks were dependent on the installment payments of their borrowers to make the payments on their bonds. When the farmers could no longer

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[61] Hoag, *The Farm Credit System.*

[62] This was initially situated in Washington, D.C., but was moved to New York City in 1929. It is now called The Federal Farm Credit Banks Funding Corporation.

[63] Hoag, *The Farm Credit System.*

make the payments, the Land Banks stopped issuing bonds, thus eliminating available loan funds to farmers. Banks were already in difficulty. The situation became so critical that the government appropriated $125 million to invest in capital stock, thus enabling the Land Banks to extend the loans of farmers.[64]

Farm prices had hit all-time lows. Banks were closing all over the country, but especially in rural areas, which intensified the confusion and despair. Banks that had not closed had frozen assets because of the bad loans. Insurance companies were also confronted with possible bankruptcy. All sources of credit had dried up.[65]

On May 12, 1933, Congress passed the Emergency Farm Mortgage Act, which gave the Federal Land Bank Associations the means to take on the farmers' emergency problems. The Act included the following:

1. Reduction of interest rates to 4 1/2 percent on new and outstanding loans for 5 years to be reimbursed by the Land Banks from the Treasury.
2. Treasury subscriptions to the paid-in surplus of the Land Banks equal to the amount of loan extensions and 5-year principal deferments granted to borrowers not otherwise in default on their loans.
3. A government guarantee of interest on new Land Bank bonds issued within 2 years to facilitate their sale to investors.
4. A $200 million fund for the Land Bank Commissioner to use in making first and second mortgage loans through the Land Banks up to 75 per cent of their normal value. (Land Banks were limited to 50 per cent on land and 20 per cent on the insured value of buildings.)[66]

Early in 1934, Congress established the Federal Farm Mortgage Corporation with capital consisting of the $200 million Land Bank Commissioner fund already invested in

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64 Ibid.

65 Ibid.

66 Hoag, *The Farm Credit System*, 234-5.

farm mortgages. The Corporation was authorized to issue government-guaranteed bonds up to ten times its capital, as well as to buy the bonds of the Land Banks. Governors were asked to appoint committees to work with farmers and their lenders to scale down the debts. If lenders were willing to scale down the debts by at least 20 per cent, then the Land Banks would refinance the remaining debt. Loans totaled $1.9 billion.[67]

When the refinancing was complete, the Federal Farm Mortgage Corporation held 48 per cent of the farm mortgage debt. At the same time this was going on, the Production Credit Associations were being established as the outlets for the FICBs to assist in lending for operating expenses. In other words, the FICBs expanded their network of outlets to extend their lending opportunities to farmers.[68]

Liquidations still took place, however. By 1939, the Land Banks had acquired an inventory of 25,000 farms. These farms were sold to either tenants or to former owners.[69]

With the help of what is called the permanent farm legislation, establishing a floor price for enumerated commodities, farm debt reached its low point in 1946.[70] The push for new technologies to increase production, and the over-riding of the permanent legislation after 1953, started the debt rising again. In 1969, the Farm Credit System (now comprised of Land Banks, Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives) established a commission to study the future of agriculture and make recommendations. In 1971, the first major overhaul of the system since 1933 was

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[67] Ibid.
[68] Ibid.
[69] Ibid.
[70] U.S. Bureau of the Census, *The Statistical History of the United States from Colonial Times to the Present* (New York: Horizon Press, 1965), 286.

undertaken.[71] These changes helped to create the conditions for the farm crisis of the 1980s, as Chapter 4 will explain.

What was the farm mortgage like in Iowa

From the time of the first settlements until the creation of the Federal Reserve System and the Land Bank system just prior to World War I, Iowa farmers had problems accessing loan funds, and meeting the terms of a loan, but they were able to do some borrowing. "On December 31, 1889, the farm mortgage debt in Iowa was $149,457,000. On October 15, 1932, the debt stood at $1,082,882,000."[72] The difference was a seven-fold increase. During the depression of the 1890s, the average debt per acre on mortgaged farmland was $14 to $16. By October of 1932, the average debt per acre on mortgaged farmland was $71.[73] According to the 1930 Federal Census, 58 percent of the owner-operators had mortgages on their farmland.[74]

During the timeframe 1915 to 1920 (which includes the First World War when commodity prices to farmers were good), the reason given for taking out a loan was to purchase farmland. After 1920, the chief reason given for loans was to renew the first mortgage for land purchase. At this time, the length of time for a mortgage (as previously mentioned) was five years. Because of the low farm income, the mortgages could not be paid off in five years.[75]

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[71] Hoag, *The Farm Credit System.*

[72] William G. Murray and Ronald C. Bentley, "The Iowa Farm Mortgage Problem, " *The Agricultural Emergency in Iowa,* ed. Staff in Economics at Iowa State College (Ames, Iowa: Collegiate Press, Inc., 1933), 55.

[73] Ibid. 70.

[74] Ibid. 59.

[75] Ibid.

The distribution of mortgage debt among lenders is important because of the different policies for handling delinquent loans. An insurance company, for example, is financed differently than a bank; and the Land Banks are different from either of these. In October 1932, insurance companies were the largest holders of farm debt, with a 42 percent market share. Private investors were second, with a 27 percent share. Deposit banks had a 16 percent share, while the Land Banks had a 12 percent share.[76] Notice that private investors and deposit banks together accounted for 40 percent of the farm mortgage loans in 1932. Any remedial action, therefore, would have to include both of these. By January of 1933, the governor of Iowa, Daniel W. Turner, issued a moratorium on the foreclosure of farm mortgage loans. The legislature passed a moratorium one month later.

Three methods of action were considered: 1) the raising of farm income sufficiently to make it possible to pay the principle and interest; 2) the turning over of mortgaged land to the mortgage holders; 3) the scaling down of the debts to where the payments could be made out of the income as it existed.[77] An examination of national policy reveals that all three of these were done. Because of the loan terms and the access to capital, the Farm Credit System took on the lion's share of the farm debt after 1933.

Because of the government involvement in the Farm Credit System, its securities have always been considered a low-risk investment. For investors looking for safety, these securities were an attraction. The system policy of loaning up to 75 percent of the appraised value of the assets, coupled with their share of the farm lending market, had an influence on available loan funds in agriculture. Up through the war years, however, the tendency of

[76] Ibid. 66.
[77] Ibid.

farmers was to refinance existing debt in order to stay on the farm, and then to pay down the debt. The Agricultural Adjustment Act of 1933 (and its various revisions) provided the cash flow necessary to accomplish this repayment because the calculation for the floor price of commodities included an average cost of borrowing.[78]

From the time of the creation of public domain, when large quantities of land became available for settlement, speculators have been present in the land market, at times driving up prices, when money was available. Speculators are in the market to turn a profit on their investment; they are not necessarily interested in actually settling on the land. Land prices driven by speculation are not related to what land will produce, but by what the increasing value can create in profit for the speculator. Those who actually want to settle on the land have different motivations. Settlers want to own a piece of land, to live on it, and to work on it. This attitude can be traced to colonial days, and showed itself in the claim associations. If farmers were the only ones purchasing farm land, and if their motive was for farming rather than speculation, this combination of access to financing, terms manageable for farmers, as well as an income floor whose calculation included the costs of borrowing should be adequate to meet their needs. When they find themselves paying prices for land that are unrelated to what the land will produce, they have a problem generating income from the land sufficient to service the debt owed against it. Having available credit to purchase land has been a historical problem. Credit terms reasonable for a farmer to meet have been a historical problem. Income derived from what can be produced on the land has been a problem for farmers. All of these are factors that must be examined when looking at the financial picture for farmers.

[78] Title 7 United States Code Annotated.

The statistics in Table 2 (add 000) are total Iowa farm debt (all lenders combined) for 1960 to 1990.[79] Note the gradual increase through the 1960s and first half of the 1970s with the overriding of the permanent farm legislation. Then the debt takes a bigger jump around 1979, when land prices started going up along with rates of interest. By 1987, when the farm liquidations dramatically increased, the debt declines.

Table 2: Iowa Farm Debt (all lenders)

YEAR	DOLLARS – add 000
1960	1725672
1961	1815780
1962	2009986
1963	2236691
1964	2411872
1965	2648737
1966	2944502
1967	3264512
1968	3435664
1969	3648288
1970	3820889
1971	4195512
1972	4536967
1973	5258735
1974	5664930
1975	6547637
1976	7606464
1977	8922333
1978	10300061
1979	12364277
1980	13287028
1981	14105128
1982	14859823
1983	14838198
1984	14720142
1985	12955631
1986	11012490
1987	9759267
1988	9506385
1989	9546705
1990	9647356

Source: Economic Research Service USDA, January 1998.

Figures 1, 2, 3, 4 show the breakdown of Iowa farm debt by lender from 1960 to 1997. Note the big increase in the Farm Credit System debt from the late 1970s to the middle 1980s. That was a time when the amount that could be loaned was increased by Congress to 97 percent of the appraised value. The Farm Credit System was able to access money through the securities market while banks were regulated so as to restrict their farm lending activities. After the mid 1980s, the commercial banks became the dominant lender category for farm loans. The Farm Credit System aggressively liquidated its farm loans during the 1980s, creating a lot of bad feeling with its farmer market base (that felt the system should have handled the bad times differently, considering its roots).

Land policies today include debate over how much farmland to allow for urban sprawl. Some planners, writing on the history of public domain, bemoan the fact that little planning was done at the time the public domain was opened to settlement. It was only "after the fact" that programs to set aside land began to be enacted.[80] As more categories of buyers bid up prices for farm land, the farmer is faced with the choice of trying to finance higher-priced land on the income farming can generate, or getting out of farming.

Debt, and the cost of the debt, is only one aspect to the farm credit picture. The ability to generate income to service the debt is the rest of the story.

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[79] United States Department of Agriculture, (Washington, D.C.: Economic Research Service, 1998).
[80] Marion Clawson, *The Federal Lands Revisited* (Baltimore: Resources for the Future, 1983).

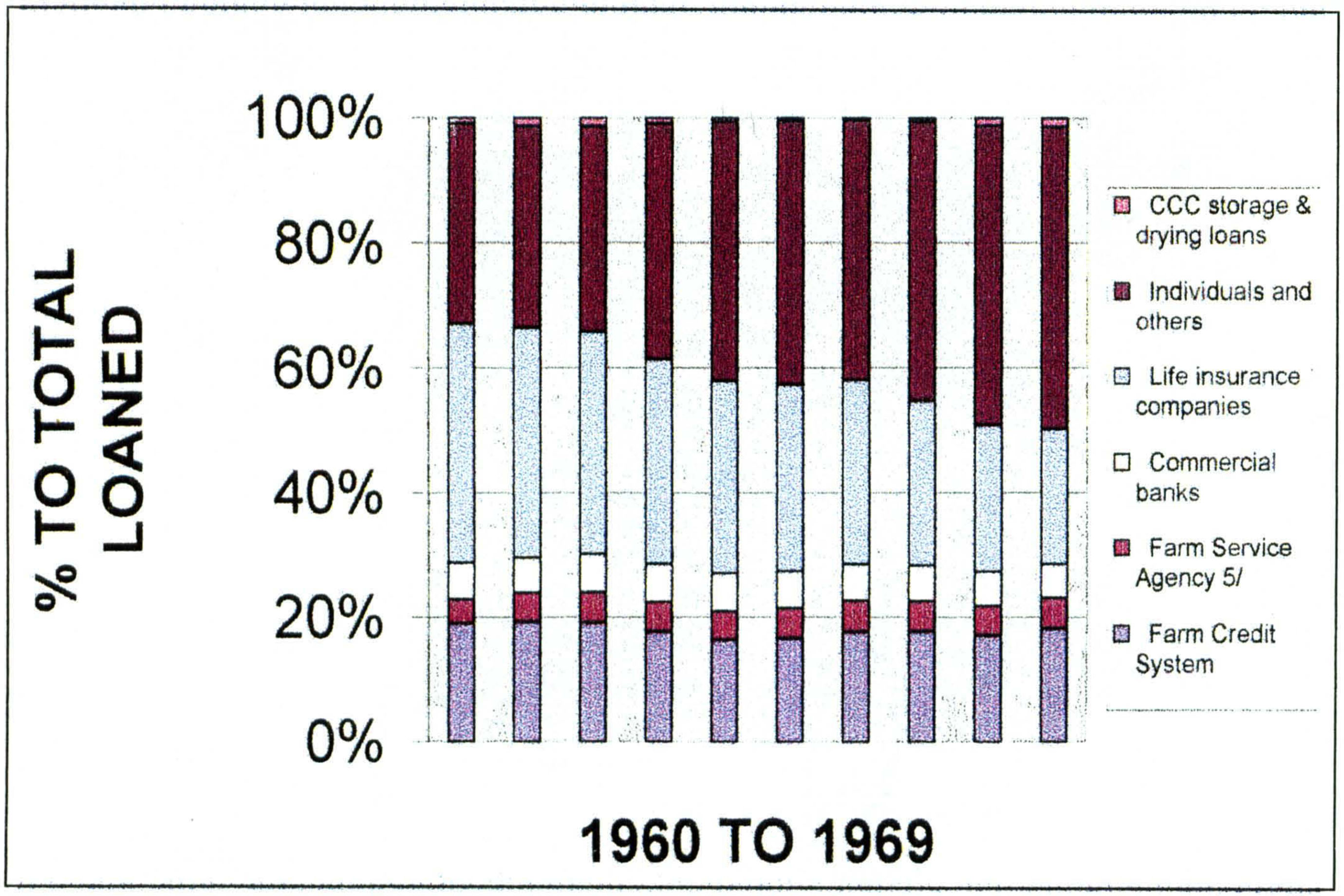

Figure 1: Iowa Farm Debt by Lender 1960-1969

Source: Economic Research Service USDA 1-6-99

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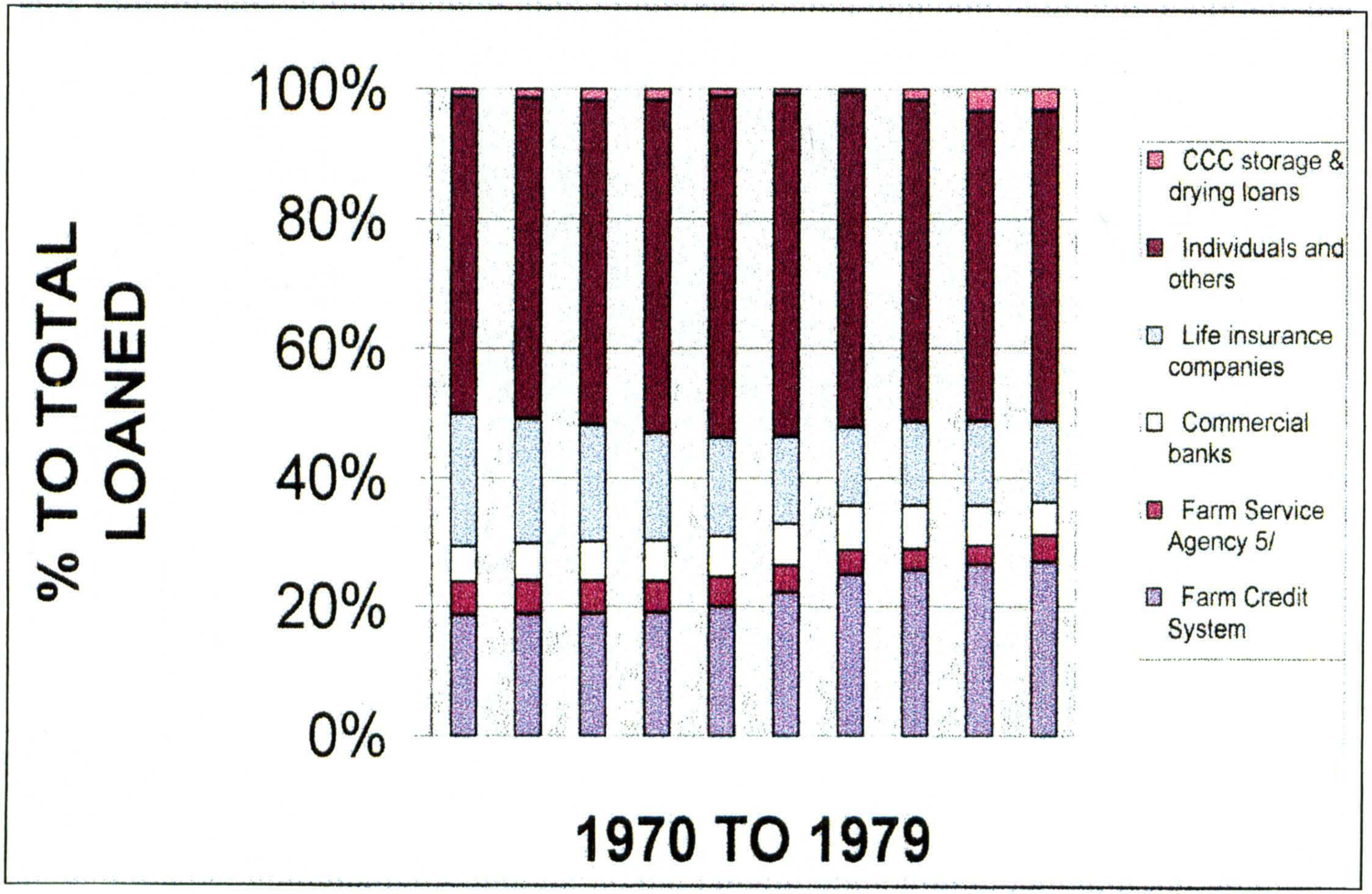

Figure 2: Iowa Farm Debt by Lender 1970-1979

Source: Economic Research Service USDA 1-6-99
http://profiles.iastate.edu/download/profiles/

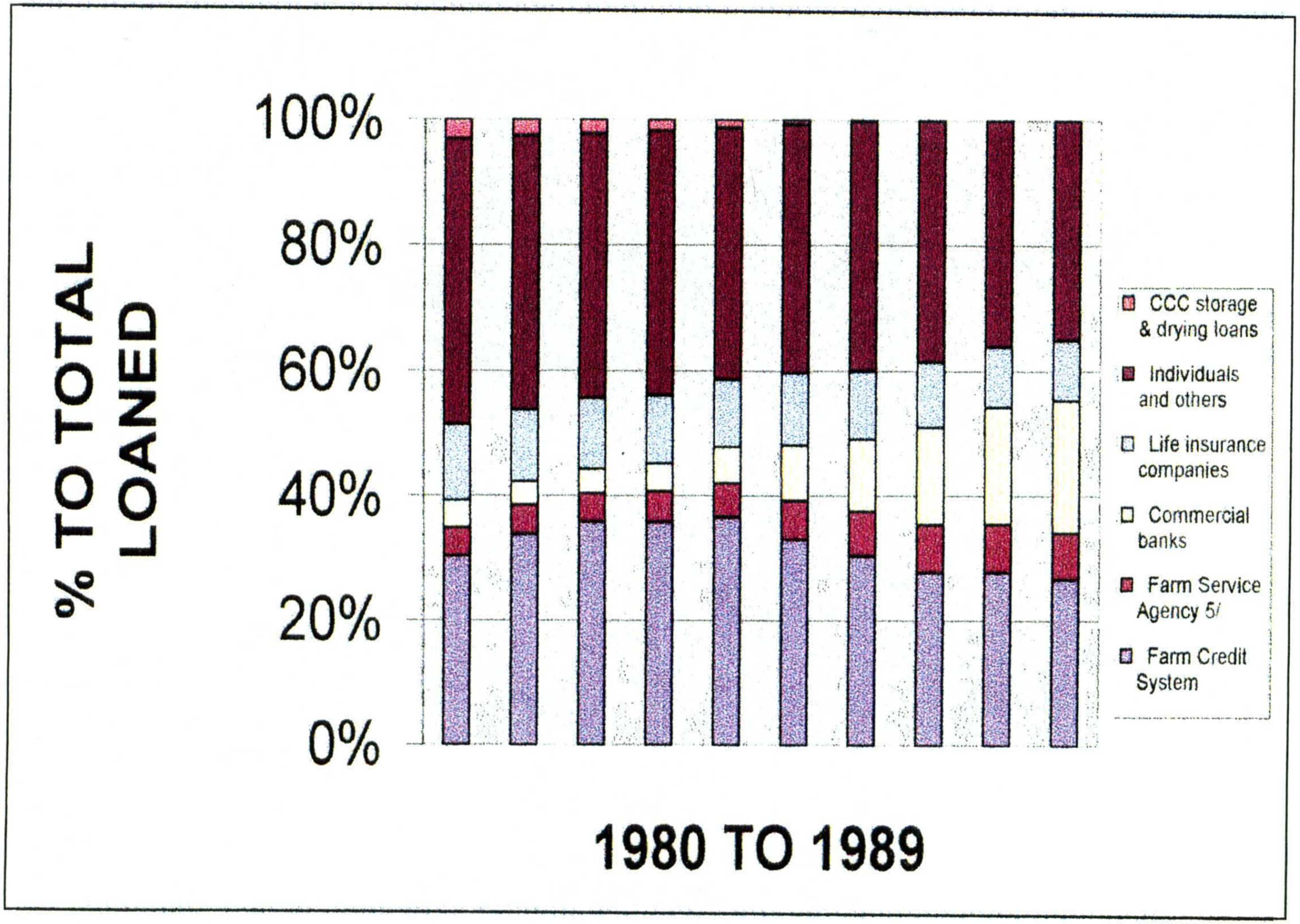

Figure 3: Iowa Farm Debt by Lender 1980-1989
Source: Economic Research Service USDA 1-6-99
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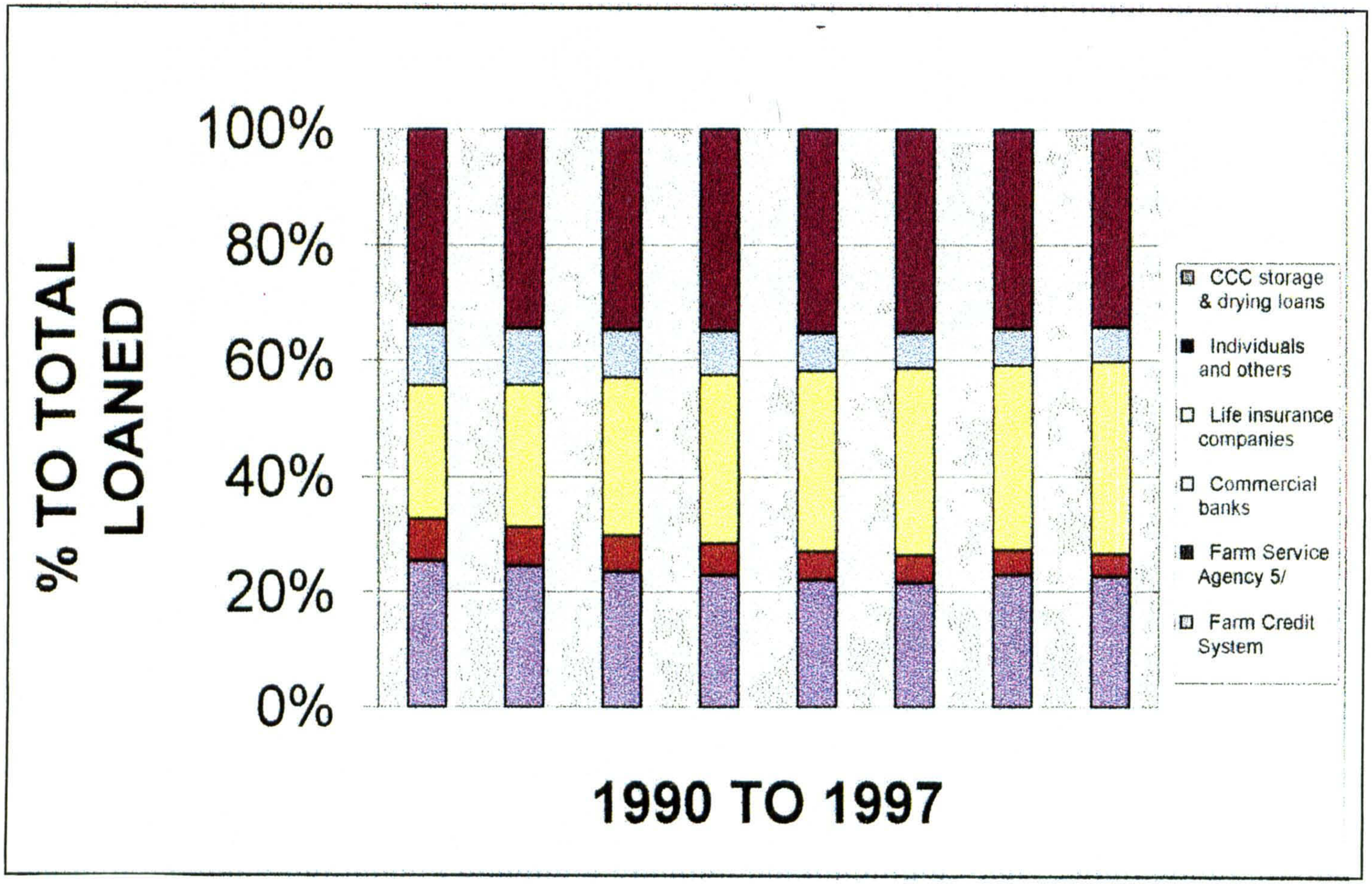

Figure 4: Iowa Farm Debt by Lender 1990-1997

Source: Economic Research Service USDA 1-6-99

http://profiles.iastate.edu/download/profiles/

CHAPTER THREE

FARM INCOME

What is farm income

Unless we each seek to be self-sufficient, it is necessary to somehow acquire what we do not furnish for ourselves. Some sort of exchange medium must be employed in order to acquire. It is also necessary to fix a price in the terms of whatever medium is available. The two parties involved in the transaction must agree to the terms before it can take place. While this seems like a basic thought, it is necessary to focus on it to understand farm income -- both the sources, as well as the impact of policy.

When the majority of farmers were self-sufficient yeomen and specie was scarce, things needed but not produced on the farm were traded with produce or labor.[1] With the move to an increasingly market-oriented economy -- beyond the level of self-sufficiency -- a monetary system was needed for pricing goods and exchanging them. This is the capitalist system. Producing for the market also created a need to acquire land (or more of it) as well as new technologies to enable the production of more goods per individual for the market.

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[1] David P. Szatmary, *Shays' Rebellion* (Amherst: University of Massachusetts Press, 1980).

This created a need for credit; available credit, in turn, created a need for income sufficient to service the debt.

Farmers produce both for themselves as well as for the market. Table 3 shows that farm income calculations have included such non-cash items as food produced and consumed on the farm. They also include changes in asset values and inventories from year to year.

Table 3: Breakdown of Farm Income by USDA for 1992-1997

AVERAGE	INCOME	U.S. FARM	OPERATOR	HOUSEHOLDS	1992-95	
YEAR	1992	1993	1994	1995	1996	1997
Cash income	11320	11248	11389	11218	13502	12460
LESS						
Depreciation	5187	6219	6466	6795	6906	6578
Op wages	216	454	425	522	531	513
Rental inc	360	534	701	769	672	568
Others	961	872	815	649	1094	1429
Net Farm inc.	4596	3168	2981	2484	4300	3373
PLUS						
Op wages	216	454	425	522	531	513
Farm rental	360	n.a.	n.a.	1053	1178	945
Self-employed	5172	3623	3407	4059	6009	4831
Farm related	2008	1192	970	661	1898	1158
Farm income	7180	4815	4376	4720	7906	5989
Off farm inc.	35731	35408	38092	39671	42455	46358
Equals	42911	40223	42468	44391	50361	52347

Source: Economic Research Service USDA Situation and Outlook: Agricultural Income and Finance 1999.

Rent on farm buildings is in the calculation. Except for the food, the other values can only be realized if they are actually sold (or rented out), however, they are still included in the USDA calculation of farm income. There is also a cash income calculation. As even the USDA acknowledges: "When net cash income declines, farmers have less cash available to support their families, pay debts, or purchase equipment."[2]

[2] United States Department of Agriculture Economic Research Service, *Agricultural Income and Finance Situation and Outlook Report* (Washington, D.C., 1996), 4.

The USDA has begun reporting off-farm income as part of the farm cash income calculation, in addition to the non-cash items. Off-farm income now accounts for most of the amount reported as cash income. Farm lenders have been using this income in calculations to determine debt-servicing capacity for some time. Figure 5 shows the reason why.

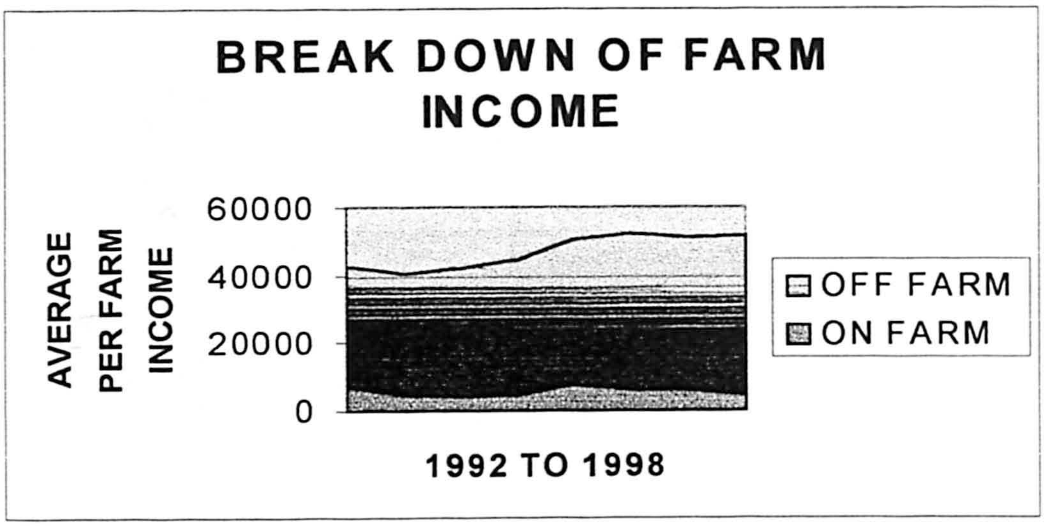

Figure 5: Average On-farm Income and Off-farm Income for U.S. 1992-1998. Source: Economic Research Service USDA situation and Outlook: Agricultural Income and Finance 1999.

Since Iowa has had an economy largely dependent on agriculture -- from its service providers to its processors, as well as the businesses dependent on the spending of farmers -- the ebb and flow of farm income has been strongly felt in the state.

The historical debate in the U.S. on how to help farm income

The previous chapter established the problems with having credit terms that farmers could meet. The reason for these problems was both the availability of credit as well as the ability of farmers to generate enough income from their farming operations to pay off the debt in the short period of time allowed by the lender, and also pay the interest on the debt.

Since the founding of the new Republic, there has been debate over the best means to attract capital and to generate income. Scottish economist Adam Smith published his *Wealth of Nations* (as a free trade approach to capitalism) in 1776, the same year as the Declaration of Independence. Very simply, under capitalism a minority of individuals owns the means of production (including investment capital), and has the legal right to use this for private gain. Capitalism relies on the market system to determine the distribution and allocation of resources (who has and who does not have), and to establish income levels, wages, rents and profits for the different social classes.[3] This puts the individual pursuit of riches for its own sake against the interests of societal responsibility toward each individual. The Church had an ongoing problem with capitalism form the time of its inception because of its emphasis on profit and the use of people to increase the profit of others. For capitalism to be acceptable, a way needed to be found to make it appear as if it was doing something good for society. Adam smith was able to find such a way by using the Puritan work ethic of personal gain as being favored by God. By presenting a model of an economic order with acquisitiveness as its cornerstone, he justified individual economic self-interest and a free competitive market as being in the common good of society. Adam Smith was a philosophe, so he assumed individuals and countries had common abilities and common self-interests. Through his "invisible hand of the market place," individual economic liberty (of free trade) could

[3] Robert Lekachman & Borin Van Loon, *Capitalism for Beginners* (London: Writers and Readers Publishing Cooperative Limited, 1981).

achieve natural harmony by the pursuit of individual economic self-interests. Since that time, those who believe in this approach have tied economic liberty to the profit motive. Because he interpreted the drive for more money as a natural trait (hence a natural law), he identified the freedom to acquire more with freedom as such. This allowed for the identification of a free competitive market with individualism and democracy in the minds of those who see the world in this manner. The Chicago School of Economics works form this basis, as do many politicians and businessmen. The acquisitive, profit-oriented, individual could be free to pursue his own acquisitiveness in the belief that in doing so he was promoting the public good.[4]

While a case could be made that Smith was attempting to justify the hierarchical system then in control of Europe, or possibly to the shortcomings of the members of the Enlightenment Movement (to which he belonged), the reason for including his thoughts is because they were introduced to the world the same year that the Declaration of Independence declared all men to be free, free to assume a "separate and equal station to which the laws of nature and of nature's God entitle them."[5] As the American Revolution (freeing a large region from the British mercantile system, under the control of the aristocracy) took advantage of the thinking at the time to discuss governments and their relationship to people, the vast unclaimed resources of the new country provided opportunities for those ready to put the new system of capitalism to use.

An analysis of the writings of Americans from 1760-1805 clearly indicate an awareness of responsibility toward others, and that this should be taken into account in

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[4] Gerald Dworkin, Gordon Bermant, Peter G. Brown, *Markets and Morals* (Washington, D.C.: Hemisphere Publishing Corporation, 1977), 34-5.

[5] Declaration of Independence, 1776.

forming governments because people coming together for this purpose give up some of their personal rights for the rights of society.[6] Therefore, for the basic concepts of personal acquisitiveness to take hold in such an environment, it would be necessary to show them as being in the public good.

Our Founding Fathers, though, had already been through a time with Britain when the aristocracy was more interested in what they considered their natural right to control resources and people, and so were very familiar with the tactics employed to do exactly that. If the former colonies were to develop their own independent economy, and take their place in the world with their new political system, then assistance would be needed to allow the necessary development to occur. The new government would also need financing for the development of needed infrastructure (not allowed as a colony) and for credit in the world markets. (Having credit requires the ability to service the debt.) Alexander Hamilton, as one example, put forth the ideas to accomplish these ends.

Hamilton wrote several papers on the types of policies the new country should have to establish itself in the world market of trading, as well as to protect itself (in its weakness) from the predatory practices of other countries.[7] He expounded on topics of policy for the new republic in editorials and in letters to influential people, such as George Washington (who used one of the letters as the basis for his Farewell Address). He was the first Treasury Secretary and the leader of the Federalist Party. He won establishment of the first national bank. He promoted the protectionist approach to capitalism. As this ideological debate has played out in policy legislation, it has affected both the availability of credit, its terms, as

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[6] Hyneman and Lutz, *American Political Writing*.

[7] Alexander Hamilton, *The Basic Ideas of Alexander Hamilton*, ed. Richard B. Morris (New York: Pocket Books, 1957).

well as the income for servicing the debt. A brief overview of the conflicting ideas is in order because it is reflected in the legislation ultimately affecting farm income.

In 1789, with the adoption of the Constitution, Treasury Secretary Hamilton recommended the enactment of tariffs to both raise revenue to meet the government expenses, as well as to protect the income of some American products against dumping by other countries (principally Britain). Toward this end he suggested the following measures:

1) Protecting duties -- or duties on those foreign articles which are the rivals of the domestic ones intended to be encouraged.
2) Prohibitions of rival articles, or duties equivalent to prohibitions.
3) Prohibitions of the exportation of the materials of manufactures.
4) Pecuniary bounties.
5) Premiums (of a nature allied to bounties).
6) The exemption of the materials of manufactures from duty.[8]

For the first two decades of the country, the idea of a tariff was not much of an issue because the Treasury needed money. Tariffs generally drifted up until the Compromise Tariff of 1833. A debate over tariffs arose as the ideas of Adam Smith gradually increased their influence. William McKinley, in his book *The Tariff in the Days of Henry Clay and Since,* noted comments by ex-President John Quincy Adams to the House on the policy:

> Under that system of policy (the protective) the Nation has risen from a depth of weakness, imbecility, and distress to an eminence of prosperity unexampled in the annals of the world. It was by counter legislation to the regulations of foreign nations that the first operations of the Government of the United States were felt by the people; felt in the encouragement and protection given to their commerce; felt in the fulfillment of the public engagements to the creditors of the Nation; felt in the gradual discharge of the debt of gratitude due to the warriors of the Revolution; felt in the rapid increase in the population, in the constantly and profitably occupied industry of the people, in the consideration and respect of foreign nations for our character, in the

[8] Alexander Hamilton, "Report on the Subject of Manufactures," *The Works of Alexander Hamilton,* (New York: Williams and Whiting, 1810).

> comfort and well-being and happiness of the community felt in every nerve and sinew, in every vein and artery of the body politic.[9]

South Carolina had been lobbying heavily for reduced tariffs. Frustrated, the state passed the Ordinance of Nullification declaring the most recent tariff act of 1832 unconstitutional and void, and refusing to collect it. A proclamation was made by the Legislature that if the government of the United States attempted to collect the tariff then "South Carolina will no longer consider herself a member of the Federal Union."[10] McKinley noted in his book that the cause of South Carolina's problem with the tariff was not really the tariff but the issue of slavery. "Mr. Calhoun realized that the policy of protection to home industry was inimical to the employment of cheap or enslaved labor."[11]

In February of 1833, President Jackson secured the passage of what came to be called "the Force Bill." This would have collected the tariffs in South Carolina if they had not backed down from their nullification movement. Henry Clay, in the meantime, worked to secure the passage of a compromise tariff that would gradually reduce duties but would preserve the protective system.

The plan of the Compromise Tariff was to gradually reduce protection by 10 percent of the rate above 20 percent (the level of 1824), until 1840 and then steeply reduce it to 20 percent in 1842. However, the 20 percent level had been in existence only two months when it was replaced by a new act to return the duties to the 1832 levels. The 1830s had experienced a monetary crisis and land speculation that first brought in money and then took

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[9] William McKinley, *The Tariff in the Days of Henry Clay and Since: An Exhaustive Review of our Tariff Legislation* (New York: Henry Clay Publishing Co., 1896). Reprint New York: Kraus Reprint Co., 1970, 8.

[10] Ibid., 9.

[11] Ibid., 9.

it away in the Panic of 1837. To generate revenue, it was necessary for the Congress to re-impose tariffs.[12] Notice that the reimposition of tariffs was done after a speculative land binge that damaged both lenders as well as farmers, creating a need to preserve income.

Just what is a protective tariff? To survive, businesses (including farms) need to receive a price for what they produce (or provide, in the case of a service) which covers the following: The cost of assets necessary for the business, the business operating expenses, labor, and a profit sufficient to reinvest in new technologies to increase efficiency of production, and bring a return on investment. Individuals need to do this too by covering the assets necessary to survive (such as housing), the living expenses, a standard of living commensurate with their development, and savings sufficient to replace assets as they wear out or cost too much to maintain.

The Constitution conferred upon Congress the power to levy a duty in Article 1 Section 8. The first Act was passed in 1789, and did not become a major party issue. Minor changes were made in 1792, 1794, 1797, 1800, 1804, and 1812. Through 1816, twenty-five tariff acts were passed. The tariff drifted upward at the urging of Treasury Secretary Hamilton, who saw the need for revenue. These duties increased 100 percent, doubled the rates, and placed a further duty of 10 percent upon the good imported in foreign vessels. Those who embraced the protective policy fought to preserve American markets for American manufacturers. For the first eighty years of the country, then, politicians debated, compromised, and generally rewrote tariff legislation to favor various products and bring in needed revenue. Because tariffs can be structured to work in a variety of ways, the method

[12] Benedict, *Farm Policies.*

changed almost as often as the rate, usually with political compromise determining the final result.[13]

However, by the mid-1800s, a change took place. It is noteworthy that the Republican platform of 1876 stated that "the duties levied for the purpose of revenue should so discriminate as to favor American labor."[14] This was considered a first in acknowledging a tariff as something other than bringing in revenue to the government. The additional purpose was to improve the situation of labor. This was significant. Hamilton had recommended tariffs after the establishment of the Constitution to both bring in needed revenue to the government as well as to assist in the promotion of American manufacturing. Under the mercantile system, the colonies had not been allowed to establish many kinds of manufacturing because their purpose in the system was to send raw materials to the British manufacturers, and to purchase the products. Hamilton wanted a diversified economy because he saw that as providing more economic stability and revenue to the new Republic. He wanted the fledgling companies to have a chance to develop and grow without the interference of the already-established British companies. He supported a tariff for these reasons. His *Report on the Subject of Manufactures* clearly states that domestic production should be preferred to foreign production because it is a more reliable market. By 1876 the idea was now being expanded to help the situation of labor. This is the significance reflected in the Republican platform position.

The McKinley Tariff of 1890 has been criticized for the large duties it imposed, and blamed for the resulting problems. There was a political reason for its passage. It was

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[13] McKinley, *Tariffs.*
[14] Ibid, 47.

designed to bring the western farmers into a closer tie with the Republican Party. It was largely successful in this endeavor because it provided a complete schedule of protective duties on farm products. However, in the case of sugar, a bounty was to be paid to American producers on sugar imports, rather than an import tariff. This resulted in a loss of funds to the Treasury. Large congressional pay raises were voted at the same time as the Treasury was experiencing this loss of funds, but that is seldom cited in discussions of the financial impact of tariffs to the Treasury.[15]

If the government was going to rely on duties for revenue, then imports were necessary. The idea of a tariff was not to stop the imports, but to raise the cost to one commensurate with domestic prices in order for American producers not to be forced out of the market by cheaper imports.

In 1851, economist Henry C. Carey (whose father, Matthew Carey had been an economist at the time of Alexander Hamilton) wrote a book on the first 50 years of the United States as it struggled to establish its new system of government and economics. Using available statistics and excerpts from political debates and newspaper editorials, he laid out the case for the debate and why the American System of protection should be favored over Adam Smith's free market system. He noted:

> Two systems are before the world....One is the English system; the other we may be proud to call the American system, for it is the only one ever devised the tendency of which was that of elevating while equalizing the condition of man throughout the world.[16]

William McKinley, former Representative from Ohio (elected President in 1896),

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[15] Benedict, *Farm Policies.*

[16] Henry C. Carey, *The Harmony of Interests,* (Philadelphia: J. S. Skinner, 1851) Reprinted New York: August M. Kelley, 1967, 228-9.

wrote a book (published in 1896) titled *The Tariff in the Days of Henry Clay and Since.* The book examines the tariff legislation in the United States from 1812 to 1896. McKinley quotes from a speech made by Henry Clay in 1824 in favor of tariffs:

> The object of the bill under consideration is to create this home market, and to lay the foundations of a genuine American policy. The creation of a home market is not only necessary to procure for our agriculture a just reward for its labors, but it is indispensable to obtain a supply of our necessary wants. If we cannot sell we cannot buy. The sole object of the tariff is to tax the produce of foreign industry with a view to promoting American industry.[17]

The reason for including this discussion is to show that there was an ongoing debate in the United States over a policy of protective tariffs for the purpose of preserving income and raising capital, versus free trade. Carey's book went so far as to show how tariffs would promote every facet of life, including the well being of families. These aspects are no longer taught in our schools today, so the reasoning behind some of the legislation of the past becomes clouded. This debate over policy took place at the same time as the discussions on banking and monetary policy. All of these are factors that influenced lending to farmers because they determined whether or not funds are available, the terms of the loans, and the ability of the farmers to service the loans.

Another aspect to this discussion that needs to be mentioned is the subject of monopolies. The reason for this is because people generally think of consumers as the market for farmers. While they are the end buyers of the product, the "market economy" that farmers sell into is not the public one most of the time, but the processors. This is a

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[17] McKinley, *Tariffs*, 5.

concentrated group. During the latter half of the 1800s, the idea of laissez-faire (originally promoted by the philosophes of the enlightenment to prevent government from interfering with the then-expanding bourgeoisie) gained acceptance. Corporate forms of organization and large-scale production expanded rapidly. Monopolies arose because there was nothing to stop them. They found cutthroat competition and price wars so ruinous that they turned to price agreements, division of territories, corporate trust combinations, and other ways to avoid competition.[18]

From time to time throughout our history, Congress has found it necessary to step in to break up some types of operations and the large monopolies (or Trusts). One example of the type of problem farmers faced involved cooperation between some railroads and some elevators. There were secret rebates, special favors in supplying cars, a western rate possibly four times that of one in the east for the same distance traveled, monopolization of sites for elevators, and requirements to ship through specific elevators.[19] The Sherman Antitrust Act was passed in 1890. During the Theodore Roosevelt Administration, twenty-five lawsuits were brought against Trusts, but only a few of them were decided in favor of the government. One of these was the Beef Trust.

Before 1874, the population centers of the United States supplied their food needs locally. If meat was shipped to these points, it was "on the hoof," or live. Then the refrigerator car was invented. Chicago became the centralized slaughter-house for the United States. Then Kansas City developed. Next came Omaha. These rivals began competing

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[18] Benedict, *Farm Policies*, 91.
[19] Ibid.

against each other by forcing out smaller packers, or buying them out. The four largest packers -- P. D. Armour, Gustavus F. Swift, George H. Hammond, and Nelson Morris -- came to an agreement that they would not compete among themselves. Thus, 60 percent of the dealers in fresh meats had agreements whereby they avoided bidding against one another for their meat supplies. Even though there existed more than one meat processor, because they did not bid against each other, there was a virtual monopoly of a market in terms of where the farmer had to sell his produce. These four conspirators then entered into an agreement with the railroads to be paid for the refrigerator cars they furnished to ship their own meat. The remaining packers had few refrigerator cars (or they rented them form private lines), so they got no rebates. This meant that their expenses were not being subsidized, as were the expenses of the "Big Four." These monopolizers, as they put their Trust together, then moved to control the price to farmers. West of the Mississippi and east of the Nebraska Plains, the business was not cattle-raising but cattle-feeding. For meat to have a longer carrying capacity for shipping, the cattle needed specific types of feed. To finish feeding cattle for shipping required corn. In the Corn Belt, the practice came to be the feeding of cattle from western states: finishing. This practice required capital to buy the range cattle and pay for the shipping. This required loans. As the Trust came to control the railroads, they became the only market for the farmers.[20] The income to farmers was controlled, and possibly reduced. The control over farmer income had an impact on the ability to service loans or, at times, to get credit.

After an investigation into meatpackers in 1919, the Department of Justice took steps

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[20] Charles Edward Russell, *The Gratest Trust in th4 World* (New York: Ridgway-Thayer Company, 1905).

to prosecute them under the antitrust legislation. An agreement was reached in 1920 whereby the meatpackers agreed to divest themselves of several of their interests that were operating in a manner of vertical and horizontal integration (as we have today in these industries).

The idea of monopoly extends to investment banks. "From the nineteenth century onward [capital accumulation and concentration have] characterized banking."[21] As we moved to the present day, many giant corporations began investing their accumulated profits in enterprises in unrelated sectors, leading to holding companies. "Financiers who direct investment banks and also rule expensive capitalist empires enjoy a form of power that has long been described as *oligarchy.*[22] This oligarchy is composed of a small number of big capitalists whose power (both direct and indirect) allows them to dominate an economy. This can happen in the following manner: If it requires an average of 33 percent control of the shares for a financial group, and company A in this group holds 33 percent of the shares in a subsidiary company, the latter company can be controlled by 33 percent of 33 percent, or 11 percent. There is nothing to prevent the subsidiary from setting up another subsidiary. This is the reason the capital of investment banks and holding companies is invested frequently through a complicated network of subsidiaries.[23]

The following explanation of monopoly and consolidation taking place today makes it important to understand why some of the past laws in this country reflected the ability of some people to grasp the significance of the debate between the American System of economics and the Adam Smith system: There is a general tendency for monopolies, alone or

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[21] Pierre Jalee, *How Capitalism Works,* (Now York: Monthly Review Press, 1977), 83.
[22] Ibid., 84.
[23] Ibid., 84.

in combination, to spread their grasp over the entire world market, with the purpose of accelerating the accumulation of capital. They work for a world economic and political order that would free the movement of capital and commodities and regulate currencies and their circulation. Trade is their vehicle. The value of a commodity is determined by the amount of labor socially necessary to produce it. The value of the labor force is represented by the value of goods required to maintain and renew it. The value of such goods is much lower in underdeveloped countries; in developed countries it combines a complex of individual and social expenditures. It is generally true that the underdeveloped countries export goods that are relatively undervalued, while those of the developed world are overvalued. This is known as unequal exchange.[24]

Our Founding Fathers were familiar with a world dominated by an aristocratic elite. From their writings it is obvious they tried to establish a system that would allow more opportunities for a greater number of people. Hamilton, for example, wanted the broadest interpretation of the commerce clause of the Constitution. He disagreed with those who believed trade should be unregulated. He insisted that there must be "a common directing power."[25] He believed that power should be the national government.

The following, more current, observation is what some of them wanted to avoid (and the reason for the policy debate): Those whose high rate of profit enables them to preempt the lion's share of total national surplus value can only do so at the expense of the share of others with a lower rate of profit. It is usually the same group, the monopolies, who take most, and the small or medium capitalists who get less. This creates sharp antagonism

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[24] Ibid., 86.
[25] Hamilton, *Basic Ideas*, 274.

between these rival contenders for a share of national surplus value. As the state becomes more controlled by these monopolistic-like interests, its interventions in the economy have the ultimate purpose of supporting these interests' resistance against the tendency of the rate of profit to fall.[26]

It is necessary to understand the policy debate, as well as the history of agriculture, because solutions to problems are derived from the context of their understanding. Therefore, in order to understand the agriculture policy behind the legislation of the 1930s and the 1940s, that has come to be called the permanent farm legislation, the circumstances leading up to it and how that was viewed become important. The part of this legislation that has since been repealed since 1953 read in part:

> The parity index as of any date shall be the ratio of...the general level of prices for articles and services that farmers buy, wages paid hired farm labor, interest on farm indebtedness secured by farm real estate, and taxes on farm real estate....Parity, as applied to income, shall be that gross income from agriculture which will provide the farm operator and his family with a standard of living equivalent to those afforded persons dependent upon other gainful occupation.[27]

This equivalent income is nothing more than the equal pay for equal work we have today in other areas. Notice that the parity calculation involved a factor of the estimated average cost of money in order to service the debt. That has been missing in farm income ever since this legislation was repealed in 1953.

At the time the 1933 legislation was written, farm foreclosures were causing an unrest that needed to be addressed. People could not make their payments because they were not receiving a price for their products sufficient to cover the costs of production. While there were some who insisted that there was too much produce available, and this was causing the

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[26] Ibid., 101.
[27] Title 7 United States Code Annotated, Section 1301, (1)(c) and (2).

low prices (based on the concepts of Adam Smith capitalism), there were others who saw that many people were going hungry because they could not afford to buy food, thus reducing the market for the produce. (The market is only composed of those who are able to buy.) The legislation was part of the package offered by President Franklin Roosevelt during his New Deal era that attempted to put people back to work so they could once again be in the market place as consumers. It also addressed the concerns of lenders over the ability of their customers to service their loans. By the time of the farm crisis in the 1980s, the solution was different because the policy being taught in the schools was different.

It should also be noted that, beginning in the 1940s and continuing to this day, one of the vocal entities calling for an agriculture policy based on free trade was the Committee for Economic Development (CED), composed of business representatives from 200 large major companies. This group was organized during World War II to plan for the restructuring of the world economy when the war ended. It continues to this day, meeting periodically and writing proposed policy papers on various topics.

On the subject of agriculture, they have been consistent with their proposals:

> 1) Gradual removal, within definite limits, of farm price and income supports...and a land retirement program dedicated...specifically and singly to reducing the resources devoted to agriculture, including both people and land; 2) disposal of surpluses now held by the government; 3) removal, at the end of a limited transition period, of acreage allotments and marketing controls; 4) special programs to assist farmers...to find a better livelihood in other industries.[28]

These recommendations were based on free trade theory. The parity pricing of the permanent farm legislation was partially repealed and then over-ridden in 1953. As each

[28] Committee for Economic Development, (New York, 1945, 1955, 1957, 1962).

succeeding farm bill is written, there is language in it that says it supercedes specific sections of the permanent laws in Title 7 United States Code Annotated. Those permanent sections, that have not been repealed, only become activated when there is not a farm bill in place to override them. Such a situation would only happen when a farm bill lapses (because it has a sunset date in its language) and there has not been a new farm bill passed by Congress to take its place. In 1996 this situation arose because Congress had not agreed to the terms of a new farm bill in 1995. Then Agriculture Secretary Dan Glickman delayed implementing the permanent legislation until Congress could pass a new farm bill in 1996.

As these ideas of free trade gradually gained acceptance, and times moved memories farther away from the sufferings of the 1930s, farm bills began lowering the support price for covered commodities with the idea that it would eventually be eliminated -- as called for by free traders such as the CED. Land set-aside programs increased, thus reducing the basis for generating farm income.

In the *Congressional Record* of June 21, 1972, Rep. Melcher requested, and was granted, permission to address the House for one minute:

> Mr. Speaker, there is a great deal of interest in the plan developed by the Department of Agriculture Young Executive's Committee recommending that we forget about the importance and needs of agriculture by programs. Since inserting the summary of the report in the Record of June 15, my office has been besieged with calls for extra copies of the text, which I do not have, and I understand that the Department of Agriculture is issuing only a limited number, since they do not wish to be held responsible for the document at this time, before elections....In all fairness to the 15 young executives [whose chairman was the Under Secretary of Agriculture] who thus have been given full responsibility for getting up their amazing recommendations independently, I think that the *Record* should show that their committee was set up on April 26, 1971, and that they were handpicked, with the Under Secretary of Agriculture [Richard Lyng] -- the second highest official in both the Hardin and Butz regimes -- serving as chairman, dated April 26, 1971, setting up the Committee.[29]

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[29] *Congressional Record,* June 26, 1972.

The memo setting up the Young Executive Committee was then placed in the official record, along with the report itself. The report called for the restructuring of farms to large corporate farms. During the 1970s the definition of "farm" was changed by increasing the size of the operation and the income generated from it, thus causing a large reduction in the statistics of the number of farms in this country. Farm bills continued to gradually lower price supports. Price supports were finally eliminated with the 1996 farm bill. According to a USDA Economic Research Service summary of the act:

> [T]he 1996 Act furthers the process of reorienting key segments of U.S. agriculture toward the marketplace that had been well under way over the last 10 years. Under previous legislation, the links between government payments and producer planting decisions were weakened....Farm commodity programs became more market-oriented with less government involvement through features such as (1) freezing program payment yields implemented under the 1985 Farm Act, and (2) planting flexibility with 15 percent nonpayment acres in 1990 legislation.[30]

What did Iowa look like in the 1930s

In November 1932, Iowa State College held a conference to examine the problems then existing in agriculture. Agricultural economist A.G. Black vividly describes the situation being faced at that time:

> Hogs now (November 1932) are selling for $3.00 per hundred; beef cattle, $5.00; corn, 10 cents a bushel; oats, 7 cents; butterfat, 20 cents a pound. The things that farmers produce are all selling at one-half or one-third of their 1922-1929 average prices....Interest and principal on old debts remain the same. The average farm mortgage for mortgaged farms still runs at $65 an acre. Taxes average $1.50 an acre -- down a little. Freight rates are practically unchanged....Purchasing power of the

[30] C. Edwin Young and Paul C. Westcott, "The 1996 U.S. Farm Act Increases Market Orientation" (Washington, D.C.: Economic Research Service, 1996), iii.

> farmers products now is only 52 percent of pre-war; the farmer's capacity to pay has been cut in half. When he takes a load of hogs or corn to town and sells it to meet his running expenses, the money he receives for the load will go only half as far as it used to go....The index of the things farmers buy includes the goods used in living and in production, but does not include rents, insurance, taxes, or payments on land or other debts. These all remain close to 150 percent of the pre-war, the same as they were a few years ago. With these included, the average farmer's purchasing power, instead of being reduced to 52, actually is reduced to 40 or 45 percent of pre-war....These low incomes have had a disastrous effect on land values. The value of Iowa farm land has been declining steadily ever since 1920....From 1931 to 1932 they went through the most rapid decline in history....Many farms would now sell for less than the mortgages on them. In many cases the decline in their values has exceeded all the payments made since the farm was purchased....Iowa led the nation in bank suspensions for the period from 1921 to 1929 with a total of 457....The peak in bank suspensions seems to have been passed....A great deal of this improvement can be attributed to the activities of the Reconstruction Finance Corporation, which has brought a new element of strength into the banking situation.[31]

The author of this same paper from the conference also pointed out that farm income for 1931 had been negative, and was expected to be even lower in 1932.

Another paper from the conference, dealing with the farm mortgage problem, went into the average debt per acre of Iowa farmland. It went back to the 1890s (another bad time in Iowa farm history) for comparison. In the 1890s, the average debt per acre on mortgaged land was $14 to $16; in October 1932, the debt stood at $65 per acre. Much of this debt was refinanced debt, brought about by the reduced commodity prices since the origination of the first mortgage. The participants generally agreed that the lower prices came about when the government stopped financing European buying in the early 1920s. In other words, when prices were up during and immediately after World War I, farmers incurred debt to expand and/or upgrade to newer technologies. Prices fell, and more debt was incurred in the form of refinancing. Prices fell further, and the debt could not be serviced. (William McKinley, in

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[31] A.G. Black, "The Crisis in the Fall of 1932," *The Agricultural Emergency in Iowa*, ed. Staff in Economics at Iowa State College, (Ames: Collegiate Press, Inc., 1933), 1-3.

his 1896 *The Tariff in the Days of Henry Clay and Since*, offered a similar explanation for the problems farmers faced in the 1870s -- an after shock of the Civil War.)

The above paper, by Murray and Bentley, also noted that farmers "had been using up resources outside the farm to keep taxes and interest paid. [In other words, farmers were using income from non-farming sources to try to keep their farms.] Furthermore, pressure was placed on the land to make it produce more in order that the fixed charges could be met. Both of these sources of reserve could not last indefinitely. Hence, foreclosure, assignment of the land to the mortgage holder, or a scaling down of the debt occurred."[32]

Included in the list of solutions to the problem at the time was the recommendation that farm prices be brought back to a level that would better secure the debt. In fact, this was seen as the quickest and most effective way to alleviate the problem than the other recommendations.[33]

Two methods of accomplishing this were put forth to Congress in 1933. One of these was a cost-of-production calculation (recommended by some of the farm groups, such as the Farmers Union, and the Grange). This method would put a floor under all farm products based on the cost of production, as determined by the Secretary of Agriculture. Prices could go up from there, but they could not go down; the government did not support the price by purchases. The calculation, as developed by Iowa agricultural economist Edward E. Kennedy in 1924, worked in a manner similar to manufacturing. Costs were as of a certain date. To arrive at an average income, a five-year rolling average of all farm products was calculated. The percent of farm cost to farm production was calculated. Kennedy went on

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[32] William G. Murray and Ronald C. Bentley, "Iowa Farm Mortgage Problem," *The Agricultural Emergency in Iowa,* (Ames: Collegiate Press, Inc., 1933), 57.

[33] Ibid.

from there to show how an average cost of production could be determined that would not amount to 50 percent under for some and over for others.[34] A two-price system was developed: one price would be for agricultural products predicated upon the quantity consumed domestically, and another price for surplus agricultural products that would be sold into the world markets. In other words, the price to the farmer for the amount of the produce consumed domestically would be the minimum amount, as calculated, that was needed by the farmer to cover the average cost of production. (This was roughly comparable to the method proposed by those supporting the American System of approach to capitalism.) Five McNary-Haugen (from Iowa) bills attempted to establish this legislation, but failed to gather the necessary political support. The basic principle remained the same for each bill, but the proposed mechanism varied as the plan evolved to meet objections raised in Congress and by the Presidents. The idea was not to support all production beyond what could be used domestically, but to support the domestic prices so the farm sector would be on a par with the other sectors of the economy.

The second method, called the Agricultural Adjustment Act of 1933, was the compromised method that was passed and signed into law May 12, 1933. With this method, an average cost was determined, but it was supported by the government entering the market to purchase sufficient quantities to maintain the floor price.[35] (This concept is based on the Adam Smith approach to capitalism.) The adopted method attempts to reconcile the capitalist idea of price determination through the market based on quantity, with the government taking quantities out of the market through its purchases to raise the price to the

[34] Edward E. Kennedy, *The Fed and the Farmer* (U.S.A.: Edward E. Kennedy, 1983).
[35] Benedict, *Farm Policies.*

desired floor level. This, of course, caused the problems that eventually led to its over-ride and partial repeal.

In Figure 6, the ratio is determined by farm cash commodity income on the top, divided by farm debt on the bottom. The trend of the chart is down until the late 1980s, when the farm liquidations reduced the debt. This means that the debt was rising faster than the farm cash commodity income. There are no additional non-cash amounts included for change in asset values, consumption by the farm family, or rent for farm buildings that the family was using in the farming operation. The expenses exclude dwelling expenses.

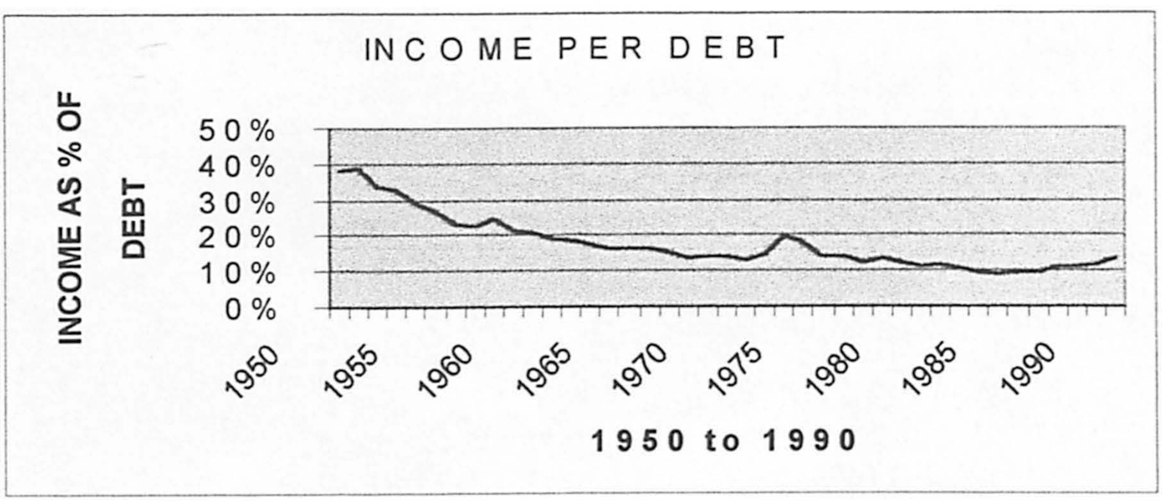

Figure 6: U.S. farm income as a percent of farm debt 1950 to 1990. Source: USDA statistics as furnished by the Economic Research Service December 1998. http://profiles.iastate.edu/download/profiles/

According to a number of sources (Federal Reserve Bank, USDA, Farm Credit System), the debt was rising beyond the repayment capacity of income generated from farming activities. Loans were increasingly made on the rising paper value of the assets as an offset to the reducing income. It was considered good business practice, even by businesses not in farming, to use this paper equity by borrowing against it. When the values stopped going up, many businesses were caught with excessive debt and insufficient income to service the debt. When this abruptly stopped, the trend went back down, as Figure 6 shows. Adding off farm income would show an improved situation, but the point is to show that farm-generated income was insufficient to service the debt.

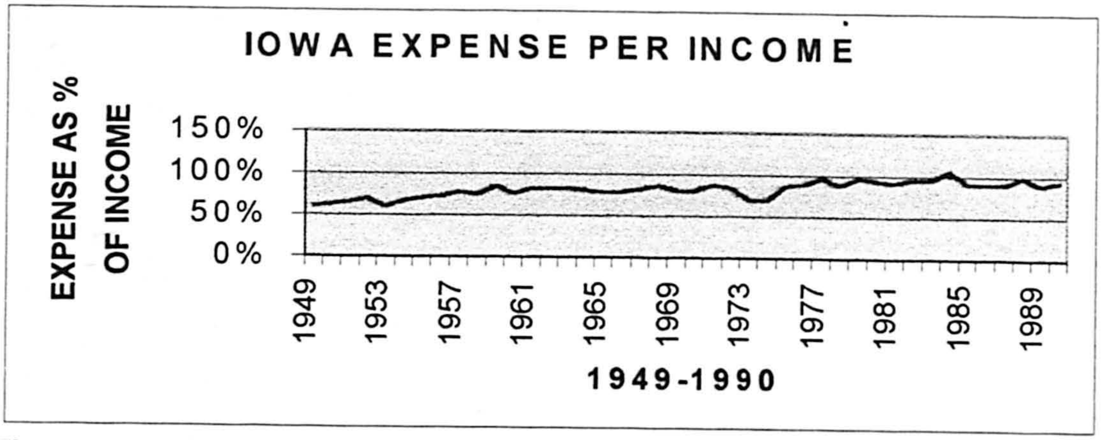

Figure 7: Iowa farm expenses as a percent of Iowa commodity income 1949-1990
Source: Economic Research Service USDA December 1998.
http://profiles.iastate.edu/download/profiles/

Figure 7 shows Iowa farm expenses as a percent of Iowa farm commodity income for the years 1949 to 1990. Note that there are two times -- 1984, 1989 -- when the expenses are more than 100 percent of farm commodity income. After the mid-1950s, the Iowa farm expenses are generally 70 percent or more of Iowa commodity income. During this time, farm bills were overriding the parity price structure, and the USDA support price was less than the USDA-calculated average cost of production for what a parity price would be. (Even though the USDA no longer supported a parity price to farmers to support their income to a comparable level with the rest of the economy, they were still required to make the calculation as to what that price would be.)

Figure 8 shows Iowa farm debt as a ratio to Iowa cash farm income. Note the jump in Iowa farm debt as a percent of Iowa commodity income after 1970. Note that in the 1980s it was not only over 100 percent, it was over 150 percent. This corresponds to the comments made by the Kansas City Federal Reserve Bank economists (in the next chapter) that farmers were supplementing their low income with more borrowing. This is the same situation that was observed in the 1920s and 1930s.

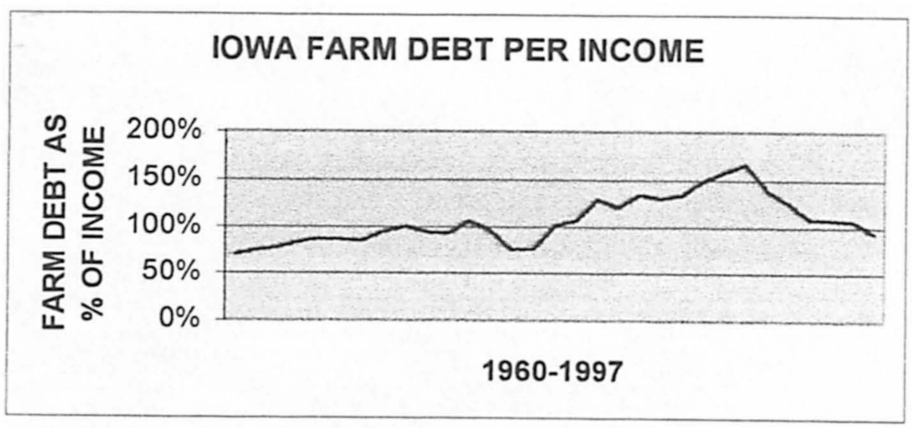

Figure 8: Iowa Farm Debt Per Income.
Source: Economic Research Service USDA 1998.
http://profiles.iastate.edu/download/profiles/

Figure 9 shows the increase in Iowa non-farm real estate debt. This is important because this short- and intermediate-term borrowing has been used by farmers to supplement their low commodity income (when other sources were not sufficient). It was also used to make the payments on the long-term debt. Even though it was not good business sense to borrow money at a higher interest rate to make a payment on a loan with a lower rate of interest, the priority for the farmer was to keep the farm. Note the increase in the Iowa short-term debt for the late 1970s to the late 1980s. As long as lenders were willing to increase short-term debt to pay long-term debt, the long-term lenders were in a good position. However, when the short-term lenders quit advancing money to make the long-term debt payments, the long-term debt position was in trouble. It should be recalled that it was

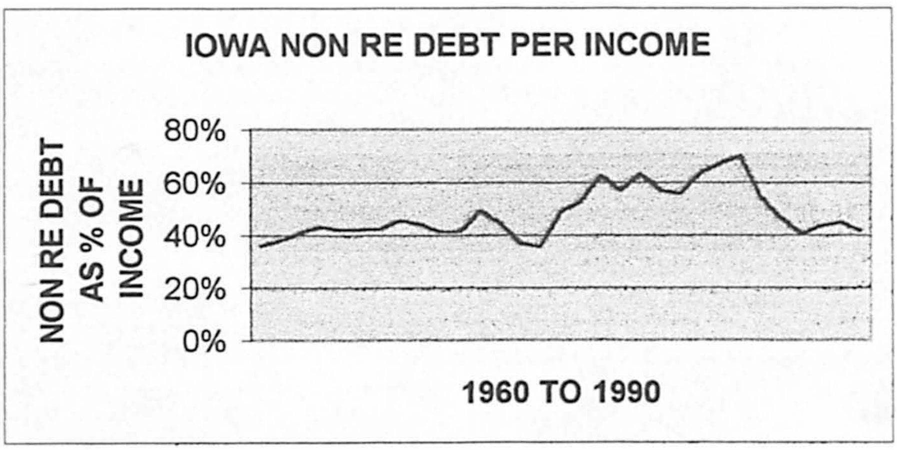

Figure 9: Iowa Non RE Debt Per Income.
Source: Economic Research Service USDA 1998
http://profiles.iastate.edu/download/profiles/

considered good business practice at the time to borrow against equity (to make your money work for you). The Federal Reserve economists acknowledge this in the next chapter.

The response in the 1980s was not the same as it was in the 1930s. The crisis of the 1980s led to a push by the government for farmers to supplement their commodity income with income from the Board of Trade and from off farm jobs. In addition, there were two big land set-aside measures: the Conservation Reserve Program and the Wetlands Preservation Program. Each of these aimed to set aside 50 million acres. This is land out of production, on which farmers cannot generate income. Lenders, on the other hand, wanted more control over risk, so they pushed for an increase in contracting arrangements where a price would be spelled out in the contract. The manner in which this shift in control has taken place is similar to the methods used by the Beef Trust (discussed earlier in this chapter).

Farm commodity income was not sufficient to support the farm debt, the farm income, and the farm family. All of these factors were in the required calculation the USDA was to make to determine a basic price. However, when this legislation was overridden by succeeding farm bills that aimed to lower the support price to nothing in the move to a free market system (where contracting would be the only "game in town"), the income was not available to the farmer. With the income not available, farm lenders initially loaned more money (increasing the debt load) to refinance the debt, then they stopped doing this and began liquidating. As the next chapter will show, the response by the government was to advance money to the lenders to finance the liquidations (as was done in the 1930s), but no increase in farm income was forthcoming (as it had been in the 1930s). The reason it was different in the 1980s is because the idea of a free trade market economy had determined the decision-making. Under this system, the price to the farmer would be determined by the increasingly concentrating handful of processors, who buy on a worldwide basis. This is now the new farm policy.

CHAPTER FOUR

THE FARM CRISIS OF THE 1980S

Events in the 1970s

Why begin a look at the farm crisis of the 1980s with an examination of farm policies in the 1970s? The answer lies in the fact that the groundwork for what happened in the 1980s was laid in the 1970s as an outgrowth over the direction farm policy had taken. This groundwork involves the question of farm income as well as farm lending.

Since the farm crisis of the 1930s, the Land Banks, the Federal Intermediate Credit Banks (FICBs), the Production Credit Associations, and the Bank for Cooperatives (now called collectively the Farm Credit System) was a national presence in farm lending, with access to funding that was not available to other farm lenders. The Farm Credit System has its own funding agency that is in the securities market sixteen times a year. This funding corporation is located in New York City and manages a selling group of approximately 125 investment dealers and dealer banks that offer the securities. It also provides financial advisory services and supports the Farm Credit System institutions in the management of interest rate risk.[1] As long as investment dealers are willing to buy Farm Credit System

[1] All of the annual Farm Credit System annual reports discuss the structure and operation of the funding system.

securities, money continues to flow into agriculture through that entity. Investors, looking for a low-risk investment, have considered Farm Credit System securities a good investment because government backing was assumed, though not explicit. Banks and insurance companies (other major sources of farm lending) have other sources of funds that can limit what they have available for agricultural lending.

The Farm Credit System is a national farm cooperative lender that is allowed to exist by Congress for the sole purpose of financing agriculture. The private money flowing into the system – and ultimately out of it – influenced the inflation of farm real estate prices and the liquidation of farm loans for itself and other farm lenders during the agriculture crisis of the 1980s. The following is how it worked.

While the government provided the initial seed money for the beginning of the System, the last of that was retired in 1968. The financing comes from Farm Credit System securities (of varying lengths from 3 months to several years) issued sixteen times a year. The Farm Credit System Financing Corporation (created in 1923) handles the sales. The securities are purchased by a pre-approved list of brokers who then sell some of the securities and keep some for themselves. This is the process that channels money into the System for lending. The Federal Reserve Bank of Kansas City describes the process thusly:

> The system's bonds and notes are...sold through a nationwide chain of securities dealers. The dealers in turn sell the bonds to other private and public investors, tapping a source of funds which otherwise might not flow into the agriculture sector. Only the amount of bonds issued by the U.S. Treasury exceeds the amount issued in the national money market by the Farm Credit System.[2]

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[2] Kerry Webb, "The Farm Credit System," *Economic Review Federal Reserve Bank of Kansas City* (June 1980):27-28.

In 1970, the total U.S. farm real estate debt was $27,505,932,000. Table 4 shows the breakdown. For Iowa, the total was $2,085,940 (000). Table 5 shows this breakdown. The 1971 Farm Credit Act, passed by Congress and signed into law, was a re-chartering of the system, the first since 1933. Two of the major changes concerned lending for land. One of

Table 4: 1970 U. S. Farm RE Debt by Farm Lender.

Farm Credit System	$6,420,357,000
FmHA	2,179,873,000
Life Insurance Cos.	5,122,291,000
Banks	3,328,876,000
Other	10,454,540,000

Source: Economic Research Service USDA: Agricultural Income and Finance Situation and Outlook Report 1975.

Table 5: 1970 Iowa Farm RE Debt by Farm Lender.

Farm Credit System	$ 394,235
FmHA	107,465
Commercial banks	118,034
Life insurance Co.	432,518
Others	1,033,688

Source: Economic Research Service USDA, December 1998.
http://profiles.iastate.edu/download/profiles/

the changes involved the determination of the appraised value. Until the change, the appraisal was based on the value of what the land would produce. After implementation of the 1971 Act, the appraisal was based on market value – increasing the borrowing potential when values were going up. The other major change in this regard was the percentage that could be loaned against the new appraised value. That percentage was increased from 65 percent to 85 percent. Because the Land Banks have their benchmark farms in their territorial counties, the extent to which the Land Banks have market share influences other appraisals in those areas. The Economic Research Service of the USDA commented in 1975:

> The rapid shift in market share and the increase in funds provided by the Federal Land Banks are dramatic evidence of the changes in lending policies which were the result of the Farm Credit Act of 1971. This shift also reflects the inability of insurance companies to increase their allocation of funds to agriculture in a time of rising demand for loan funds.[3]

The above quote says that there was a demand for loan funds that was not being met by other lenders at the time, either because of policies, or because the funds were not available except through the Farm Credit System securities. Farmers have to have land to produce, and new technologies to maintain efficiency. If speculators (not interested in production but only in turning a profit) are in the land market driving up the land prices and the security rates, or, if there are demands for the land for other uses (such as urban sprawl or preserves), then farmers will have to pay the higher prices in order to acquire the land.

In 1978, the national Farm Credit Administration Board (the regulator of the Farm Credit System) approved the final regulations necessary for the introduction of new Federal Farm Credit Bank Consolidated Systemwide Bonds.[4] The implementation of this system was completed at the beginning of January 1979. All Farm Credit bonds issued after that time were Consolidated Systemwide Bonds. In the annual report for that year, the Farm Credit System stated that all entities in the national system would now participate in these joint issues, rather than a single district Farm Credit Bank group (as had been the practice up to that time): "The Systemwide Bond issue are joint and several obligations of the 37 Farm

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[3] U.S Department of Agriculture, Economic Research Service "Balance Sheet of Farming Sector 1975," (Washington, D.C.: Government Printing Office, 1975).

[4] *45th Annual Report of The Farm Credit Administration and the Cooperative Farm Credit System 1977-1978* (Washington, D.C.: Government Printing Office, 1978), 5.

Credit Banks."[5] This meant that every entity in the national system of twelve districts around the U. S. was now liable for the entire national debt of the system -- as opposed to just their own district debt previously. In addition, loss-sharing agreements were initiated so that if one entity needed financial assistance, every other entity within the system would contribute. Land prices at this time were 78 percent higher than they had been five years before, according to the USDA.

In June 1978, the Kansas City Federal Reserve Bank issued its "Economic Review." In this report, co-author Marvin Duncan noted that the personal income of farm people included a substantial and increasing amount of non-farm income. In fact, almost 60 percent of the earnings accruing to farm people in 1976 came from off-farm sources, an indication that the lower and lower support prices from the 1970 and 1975 farm bills were reducing the cash income to farmers from farming.[6]

For the rest of 1978 and 1979, the Federal Reserve was worried about inflation. When the Federal Reserve worries about inflation, raising interest rates become an option. The raising of Federal Reserve rates has a bearing on the rates of Farm Credit System securities. While not expressly guaranteed by the government, the buyers of the securities assumed that the government would come through in an emergency, so the security rates were usually within 0.5 percent of the Treasury rates. The result of this was that as the Federal Reserve rate was going up, so was the Farm Credit System's average security rate -- as well as the lending rate to borrowers. (Each layer of the system then added its spread for operating expenses to determine the final rate to the borrower.) At this time, each

[5] Ibid., 29.

[6] Marvin Duncan and C. Edward Harshbarger, "Parity -- Is It The Answer?" *Economic Review Kansas Reserve Bank of Kansas City* (June 1978): 10.

Association had one lending rate to all of the borrowers in its territory. This meant that those with more equity were partially subsidizing the ones with less equity – those with new capital purchases.

According to the USDA, 53 percent of the farm debt at the time was in real estate. After 1980, the Farm Credit districts began initiating tiered rates that were determined by the level of perceived risk in the loan analysis forms. This would have the effect of separating

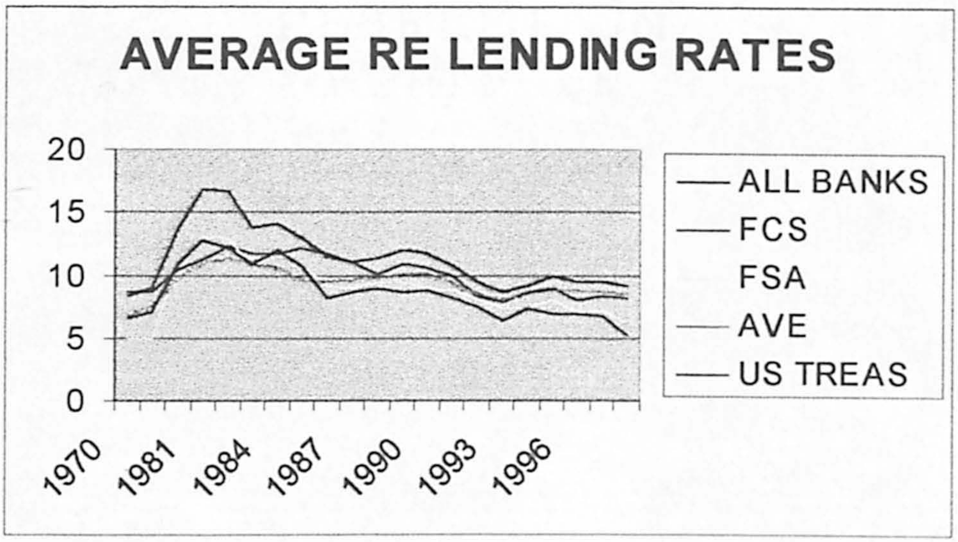

Figure 10:Average Lending Rates by Farm Lenders 1970-1990
Source: Economic Research Service USDA
Agricultural Finance and Income March 1999.

the loans into several categories, with a rate of interest for each category. The interest was, thus, going up at a faster rate for every category above the lowest rate. This is important at any time, but when the cash income was going down and the borrowing was going up, it becomes critical.

It would be highly unusual for a borrower to pay the average rate of interest. The real rate of interest would be either above or below the average rate. Because the information is not available, it is not possible to determine if the lowest rates were being subsidized (or partially subsidized) by the higher rates. As the 1970s were coming to an end, the lending rate, generally, was going up, as was the inflation rate. This combination had always been a problem for farmers.

The Farm Credit System 1979 annual report noted:

> The rate of inflation speeded up in 1979, while growth in the real economy slowed to a walk....The System accommodated the expanded demand for loans by selling a record amount of securities. Mirroring double-digit inflation, money market rates rose to peak levels causing System rates to rise also to new heights....The Federal Reserve Board on October 6 [made] a fundamental change in its operating procedures. It shifted the day-to-day focus of open-market operations from the Federal Funds interest rate to growth in bank reserves and money supply. Thus, interest rates were free to fluctuate with market forces and, as a consequence, rose and moved over a wider range. At the same time, the discount rate was raised by 1 percentage point to 12 percent and an 8 percent marginal reserve requirement was applied to certain managed liabilities of commercial banks. These measures had the effect of increasing interest rates and decreasing the supply of money, but failed to halt inflation's growth....Rates on Farm Credit System securities rose. Six-month maturities rose from an average of 8.11 percent in 1978 to 11.05 percent in 1979....Farmers turned to the Farm Credit System and to the Farmers Home Administration for credit."[7]

The above quote supports the conclusion that the other farm lenders now did not have access to as much money to make available for farm loans because of the new Federal Reserve requirements. The Farm Credit System had money available because it did not have the additional requirements placed on them. This, coupled with their new lending policy of

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[7] *46th Annual Report of the Farm Credit Administration and The Cooperative Farm Credit System1979* (Washington D.C.: Government Printing Office, 1979), 2.

85 percent of appraised value, channeled money into farm real estate lending at a time when the demand was there because of rising prices.

The 1980s

In 1980, total U.S. farm real estate debt was $89,692,429,000. Table 6 shows the breakdown by major farm lender. For the state of Iowa, the farm real estate lending totaled $7,220,993(000). Table 7 shows the breakdown by major farm lender.

Table 6: 1980 U. S. Farm RE Debt by Farm Lender.

Farm Credit System	$33,224,684,000
FmHA	7,435,059,000
Life Insurance Cos.	11,997,922,000
Banks	7,765,058,000
Others	29,269,705,000

Source: Economic Research Service USDA
Agricultural Income and Finance Situation and Outlook Report 1980.

Table 7: 1980 Iowa Farm RE Debt by Farm Lender.

Farm Credit System	2,258,172
FmHA	344,592
Commercial banks	321,530
Life insurance companies	900,263
Others	3,396,436

Source: Economic Research Service USDA
Agricultural Finance and Income Situation and Outlook 1998.

The Congressional Farm Credit Amendments Act of 1980 increased the amount the Land Banks could loan against collateral to 97 percent. USDA reports showed farm real estate debt growing at the fastest rate in 60 years. In other words, not since the end of World War I, when farmers were using good farm prices to purchase real estate, had the farm debt been so large. These same USDA records also showed farm income declining. The 1980 Farm Credit System Annual Report said: "During 1980, many farmers were plagued by high interest rates, tight credit, generally lower farm prices, higher costs and drought."[8]

In June 1980, the Federal Reserve Bank of Kansas City had the following to say:

> The system [Farm Credit System] has funneled large amounts of money into agriculture....At the same time it has gained an increasing share of the agricultural lending market and become the nation's leading agricultural credit supplier....If present trends continue, outstanding farm credit will double by 1990....The Farm Credit System will play a major role in the determination of U.S. agricultural production and marketing efforts in the coming years.[9]

In the Kansas City Federal Reserve Bank December 1980 year-end economic report, Marvin Duncan noted that "The year ahead will be a dynamic one for agricultural producers."[10] That certainly proved to be true. The following year he noted in the December 1981 year-end report: "The past year has been a disappointing one for farmers....During 1981, farmers experienced the second year in a row of sharply depressed net farm income."[11] In 1981 the new farm bill reduced the support prices another 10 percent.

In 1981, the annual report of the Farm Credit System, noted:

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[8] *47th Annual Report of the Farm Credit Administration and the Cooperative Farm Credit System 1980* (Washington, D.C.: Government Printing Office, 1980), 2.

[9] Kerry Webb, "The Farm Credit System," 16.

[10] Marvin Duncan "A Year of Promise for American Agriculture," *Economic Report of the Federal Reserve Bank of Kansas City* (December 1980): 7.

[11] Marvin Duncan, "The Farm Outlook: Recovery in 1982?" *Economic Report of the Federal Reserve Bank of Kansas City* (December 1981): 25.

The $73.9 billion in credit extended during 1981 was an all-time high....Nearly half of the amount extended was used to refinance some kind of existing debt, indicating that many farmers were either stretching out payments to improve cash flows or using equity in real estate to finance operations. The average cost of borrowing by the System rose to 15.3% in 1981. [12]

The cost of borrowing to the farmers was going up at a time when their income was going down. The USDA estimated that interest charges were double the percent of farm production expenses from 10 years earlier.[13]

By 1983, net farm income had dropped to its lowest level since 1971, according to the USDA. Marvin Duncan noted in a Kansas City Federal Reserve Bank report that:

The recent period of income stress has...spawned some serious financial problems for farmers. Farmers either leaving farming or selling part of their capital assets as a result of financial stress represent a substantially larger proportion of all farmers than would be expected under more normal economic conditions....**Farmers have increasingly relied on debt financing over the past decade.** (Emphasis added.) Total farm debt outstanding has risen 310% since 1970. Real estate debt has risen 275% and non-real estate 354%. During much of that period, however, farm asset values rose even faster, holding the farm sector's debt-to-asset ratio around 16% to 17%. **Most of the increase in farm asset values was due to escalating farm real estate values.** (Emphasis added.) From 1970 to 1981, when values peaked, national farmland values increased at an average annual rate of 13.4% -- well ahead of the 7.2% average annual increase in the GNP implicit price deflator."[14]

In this same article, Marvin Duncan noted that these financial problems developed for several reasons. One of the reasons was the low cash flow. Another reason was due to the escalating interest rates. These reasons combined to precipitate a beginning decline in asset

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[12] *48th Annual Report of The Farm Credit Administration and The Cooperative Farm Credit System 1981* (Washington D.C.: Government Printing Office, 1981), 13.

[13] *49th Annual Report of The Farm Credit Administration and the Cooperative Farm Credit System 1982* (Washington D.C.: Government Printing Office, 1982).

[14] Marvin Duncan, "Financing Agriculture in the 1980s," in the *Economic Review of the Kansas City Federal Reserve Bank* (July-August 1983): 3-5.

values that was squeezing the ability to borrow to continue the farming operations. This situation was causing an increase in loan delinquency rates.

> **It was the widespread substitution of credit for income during the past several years that is responsible for the current unfortunate plight of many financially troubled farmers... (Emphasis added.)**...Financial market conditions during the 1970s, both in and out of agriculture, tended to encourage farms to use leverage in their growth strategies....As a result, it is not surprising that agricultural debt levels grew so rapidly during that period....Farm consolidation could reduce the number of replacement farmers needed and many entrants will likely receive family assistance in starting their business.[15]

By 1985 the new farm bill reduced price supports further, causing farm incomes to fall more, according to USDA reports. Marvin Duncan wrote in March of that year:

> American agriculture is under its greatest financial stress since the Great Depression. Heavily leveraged farmers are having great trouble servicing their debts. Capital losses in the sector promise to be large as farm asset values decline....Misled by rising income expectations and price signals distorted by rising inflation, **farmers used debt aggressively in the 1970s to finance expansions and to paper over short-term debt service problems. Farm debt at the beginning of the 1970s was about three times annual farm income. By 1983 and 1984, farm sector debt was about eight times annual farm income.** (Emphasis added.) Poor prospects for farm income have combined with high real interest rates to exact a toll on farm real estate values....It seems clear that U.S. agriculture is in the midst of a major adjustment to both the market realities it currently faces and those that are in prospect. That adjustment will be more traumatic than any since the Great Depression....Lenders are expected to take possession of large amounts of farm real estate over the next two to three years as a result of foreclosures and other actions to settle problem loans."[16]

In December of 1985, Mark Drabenstott wrote in the December issue of the Kansas City Federal Reserve Bank Economic Review that Wall Street would likely remain skittish about Farm Credit System bonds because of the mounting past due loan portfolio and the liquidations. At that time, the spread between system bonds and Treasuries was greater than

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[15] Ibid., 6-11.

[16] Mark Drabenstott and Marvin Duncan, "Farm Credit Problems:Policy Choices," *Economic Review Federal Reserve Bank of Kansas City* (March 1985): 10.

the traditional 0.5 percent. The collateral for the securities was the loan portfolio of the system – linked by system-wide loss-sharing agreements and system-wide security issues, both begun in the late 1970s. The collateral for the loans was the farm assets, which were now declining in value.

In December of 1985, Congress passed the Farm Credit Amendments Act, which went into effect in January 1986. The management of the System became vested in a Presidentially appointed three-member, full-time board of directors; the national 13-member farmer board was out. Not only was the national farmer board out, but any farmer board member at the various levels below could now be removed "for cause" (never defined in the legislation).[17] The significance of this is that the farmer board members were also borrowers (by regulation), therefore potentially sympathetic to the plight of farmers. If there was resistance to increasing the interest rates, resistance to liquidating loans, or other acts favorable to the farmer borrowers and potentially not favorable to the System, they could be removed and another appointed in their place. The government agreed to come to the financial aid of the System should it become necessary, but first they had to use up all of their reserve for potential losses and their accumulated surplus. This calmed the jitters of Wall Street. One of the new members of the restructured Farm Credit System Board was Marvin Duncan, former Kansas City Federal Reserve Bank economist. Another board member, and designated chairman and chief executive officer was Frank Naylor, former Under Secretary of Agriculture for Small Community and Rural Development. The third member of the new board was Oklahoma rancher Jim Billington.

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[17] *Farm Credit Administration Annual Report 1986* (Washington D.C.: Government Printing Office, 1986), 3.

According to the 1986 annual report of the Farm Credit Administration: "The new law gives the FCA enhanced enforcement authorities, including the power to issue cease and desist orders, levy civil money penalties, and remove officers and directors of the system institutions."[18]

By the end of 1985, total U.S. farm real estate debt had reached $100,076,120,000. Table 8 shows how this breaks down by major farm lender. For Iowa, the farm real estate lending was $7,778,117 (000). Table 9 shows how this breaks down by major farm lender. The agriculture sector did not improve in 1986.

Table 8: 1985 U. S. Farm RE Debt by Farm Lender.

Farm Credit System	$42,168,554,000
FmHA	9,820,913,000
Life Insurance Cos.	11,272,689,000
Banks	10,731,881,000
Others	26,082,096,000

Source: Economic Research Service USDA
Agricultural Income and Finance Situation and Outlook Report 1986.

Table 9: 1985 Iowa Farm RE Debt by Farm Lender.

Farm Credit System	$2,584,656
FmHA	489,933
Commercial banks	688,666
Life insurance Co	900,260
Others	3,114,602

Source: Economic Research Service USDA
Agricultural Finance and Income Situation and Outlook Report 1998.

[18] Ibid., 3.

Mark Drabenstott wrote in the Kansas City Federal Reserve Bank Economic Report in December 1986 that:

> Agriculture had another painful year in 1986. The industry entered the year at perhaps the darkest moment of its deep recession. Farmland values were still falling rapidly in many parts of the country and farm liquidations were the highest in recent memory.[19]

In 1987 Congress passed the Agricultural Credit Act of 1987. The act established the Farm Credit System Assistance Corporation. It costs a lot of money to liquidate loans. There are extra staff hours and extra paperwork. There are legal expenses. There are management fees because the assets must be managed in some manner until such time as they can be sold. In fact, it can take more money to manage and liquidate assets than to keep the loan on the lender's books and operate it. The Farm Credit System was required by legislation to perform an analysis on each loan for the costs of alternative actions before liquidation could take place. This is where the manner of loan analysis is important. What figures were used, and were they realistic?

Bonds would be issued to pay the additional system costs of liquidation. These bonds would have an interest rate. Both the interest and the principal would have to be repaid to the investors who purchased the bonds. The underlying collateral was the loan portfolio of "bad" loans and the assets of these loans. The Assistance Corporation would pay all of the interest costs on the bonds for the first five years. During the next five years, the interest costs would be shared equally by the Treasury and the System. The System

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[19] Mark Drabenstott, "The Long Road Back for Agriculture," in *Economic Review Federal Reserve Bank of Kansas City* Vol. 71, No. 10 (December 1986): 40.

would pay the costs for the last five years. These were 15-year bonds whose interest would be subsidized by the Assistance Corporation for 5 years, and partially subsidized by the Treasury for the next 5 years. The remainder of the money for the interest and the principal of the bonds would be paid by the System using the liquidated assets and other sources of its income.[20]

Loan demand by farmers had decreased, so money going into the system through the usual channels of security issues was not as high as it had been. The Federal Reserve reported that the decline in farmland values – a drop of 30 percent since 1980, 60 percent in some areas – appeared to have slowed.

By 1988, the Kansas City Federal Reserve Bank reported that there was a farm recovery: "The recovery, coming on the heels of one of the biggest financial restructurings in agriculture's history, marks the beginning of a new era for the industry and for lenders to agriculture."[21] The authors of this report went on to point out that "The market share held by the Farm Credit System grew steadily to a peak of 44 percent in 1984 before slipping back to just under 40 percent in 1986."[22] It was also noted that by the end of 1988 the System had taken $196 million out of its Reserve for Loan Losses and put it back into income – at the request of Congress.

It is important to understand how this Reserve for Loan Loss account works. The System was required to take out of its earnings each year up to 0.5 percent of its year-end loan balance and put it into an account for potential losses before closing the books. This

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[20] *1987 Annual Report Farm Credit Administration* (Washington D.C.: Government Printing Office, 1987), 7.

[21] Alan Barkema, Mark Drabenstott, Landell Froerer, "A New Era in Farm Lending: Who Will Prosper?" in *Economic Review Federal Reserve Bank Kansas City* Vol. 73, No. 6 (June 1988): 22.

[22] Ibid. 25.

entry did not represent actual loan losses, but was a reserve for potential future losses. Because it came from earnings, the interest rate spread (as a part of the operating expenses) between the cost of the securities and the lending rate to borrowers included the estimated amount of this entry each year. In 1985, the method of calculating this entry changed in a significant way. In 1983, Congress had passed the International Lending and Supervision Act that mandated a change in accounting for anticipated losses for Savings and Loans, Banks, and the Farm Credit System. The Farm Credit Administration (as federal agency and regulator for the Farm Credit System) took until the summer of 1985 to write and implement the required new regulations for the system.[23]

The new entry to the Reserve for Loan Loss account became based on the potential losses as estimated by the new loan analysis forms (a copy of which is included at the end of this chapter). Whatever these forms determined to be the new potential losses for the system each month was transferred to the Reserve for Loan Loss account on a monthly basis. Thus, if the forms were including extra expenses as a cushion for possible liquidations (which they did), and declining asset values (which would only be known for sure when the assets were sold), then the entries to that account could be over stated. These new monthly entries (in the public financial reports of the system) were the figures that were being reported in the news media as system losses. This amount was not actual losses. Any actual losses that did occur were taken out of this provision for loss account. If the account were depleted, the loss-sharing agreements among the districts of the system would be activated. After that, it was

[23] As Financial Operations Manager for the Central Iowa Production Credit Association at this time, it was not only my job to know how this worked, but I was asked to write the manual section for Loan Loss Accounting for the Omaha Farm Credit District.

assumed that the government would come to the rescue of the Farm Credit System security holders.[24] The significance of the transfer of $196 million from the Reserve for Loan Loss account to the income account means that the system had set aside more money than it had needed to cover the losses it experienced as a whole. In a book published in 1992 by the Assistance Board for the Farm Credit System, it was acknowledged that the accounting method changed in 1985, and that the system aggressively forced borrowers into liquidation.[25]

What was happening in Iowa

For purposes of Farm Credit lending, Iowa was part of the Omaha Farm Credit District during the farm crisis of the 1980s. At the end of June 1978, the Omaha Federal Land Bank reported 59,580 agricultural and farm-related business loans. Of those, almost one-half of them (27,069) were in Iowa. The loan volume stood at $2.9 billion for the same time frame. The number of Production Credit Association members for the Omaha District was 23,641. Of those, almost half (10,722) were in Iowa. The loan volume was $1.4 billion.[26]

The annual financial report for December 1981 showed the Omaha Federal Land Banks with 69,372 loans; of these, 33,696 were in Iowa. The loan volume was $5.7 billion for the district and $3.1 billion for Iowa. Of these loans, 745 were reported with extension or delinquent installments. The Iowa portion of this was 285. The Production Credit

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[24] As an employee of the Farm Credit System at that time in Financial Operations, it was my job to book these losses and to know how the calculations were being made.

[25] Peoples et al, *Anatomy of Credit Crisis,* 41-2.

[26] *45th Annual Report of The Farm Credit Administration.*

Association portion of this report showed 24,446 loans for the district. Of those, 11,079 were in Iowa. Loan volume was $2.3 billion for the district and $1.1 billion for Iowa. Losses for the district that year were just over $3.8 million.[27]

By 1982, the Omaha Federal Land Banks showed loan numbers at 77,558; 38,836 (or half) were in Iowa. Loans with extensions or delinquent installments were 1,393 for the district, and 577 for Iowa. The loan volume for the district was $6.2 billion; for Iowa it was $3.3 billion. The Production Credit Associations in the district reported 24,284 loans outstanding, with 10,941 in Iowa. Loan volume was $2.3 billion for the district and $1.1 billion for Iowa. The district reported charge-offs of $14.8 million for the year.[28]

The 1983 annual report did not break down the states for reporting. The Omaha Federal Land Bank District showed outstanding loans of 77,379. The loan volume was reported at $6.2 billion. Of these, 2,090 were reported with extensions or delinquent installments. The allowance for losses was $62 million. The Production Credit Associations reported 23,531 loans. The loan volume was $2.2 billion.[29]

In 1984, Iowa State University agricultural economist, Neil Harl, analyzed the farm debt situation and recommended against a moratorium, which was being discussed at the time because it had been used during the last comparable crisis in 1933. His conclusion was based on his assumption that it would adversely affect farmer borrowers rather than help them:

> Perhaps the most serious shortcoming of a moratorium is that is shifts the burden to creditors who then respond by reducing exposure to borrowers who are the most

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[27] *48th Annual Report of The Farm Credit Administration.*

[28] *49th Annual Report of The Farm Credit Administration.*

[29] *50th Annual Report of The Farm Credit Administration and the Cooperative Farm Credit System 1983* (Washington D.C.: Government Printing Office, 1983).

> likely candidates to invoke the moratorium. Thus, it would likely end up impacting adversely the borrowers in greatest need of assistance.[30]

What Harl did recommend was a debt restructuring. Just as in the crisis of the 1930s, he suggested that lenders be asked to take a 20 percent write down in principal value of the obligation up-front. After that, various methods of rescheduling the debt could be employed, depending on the circumstances of each borrower. He saw it as in the ultimate interest of the lenders, the farm suppliers and servicers, as well as the rural areas to keep the borrowers on the books rather than liquidating them.

> A fundamental feature of the debt restructuring program is that all amounts of principal and interest that are deferred (except for the 20 percent reduction in principal value suffered by the lender and the one-half year of interest reduction for the first year) **would be added to the debtor's principal balance.** (Emphasis added.) Interest would be based upon the original loan rate for the original term of the loan and the federal borrowing rate for the period beyond the original term of the loan.[31]

One of the positive aspects to debt restructuring, according to Harl, would be a stabilizing of the factor markets. Attempts to improve cash flow by selling assets was being hampered by weak factor markets. If, for example, five of ten farmers in an area are trying to sell assets to raise money, who is available to bid on the assets, and how much money do they have with which to bid? The same principle would e true for lenders trying to sell repossessed assets. When there is a glut on the market, the prices are bid down (if there are any bids at all). This reduces the income from the sale of the asset, thus thwarting the purpose of the sale. The amount raised from the sale could be less than the amount owed. The real solution would be for the owner to have sufficient income to continue to make the payments and to use the assets to generate income to make other payments.

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[30] Neil Harl, *The Farm Debt Crisis of the 1980s,* (Ames: University Press, 1990), 4.
[31] Ibid., 6.

Another recommendation of Harl was an expanded loan guarantee plan by the USDA's FmHA. There was not a recommendation for supporting farm income. Neil Harl is considered an expert in the theories of free market capitalism, and is frequently called upon for advice in the farm sector because of his knowledge of this area. Therefore, recommending a floor under farm income is not an option he would have made because it would have been inconsistent with that ideology of allowing the markets to determine the prices. But, note that this was a different approach than the one recommended by the staff of Iowa State College in 1933 under similar circumstances.

As the farm crisis continued, the 1984 Farm Credit System annual report stopped reporting some breakdown of loan figures for the districts. Up to this time, the loan losses were relatively small. Effective December 17, 1984, an amendment was made to the loss-sharing section of the regulations for the System, indicating that trouble was coming. "Unlike" banks and "unlike" associations (meaning Land Banks and Production Credit Associations) would be allowed to share losses on a districtwide or Systemwide basis to accommodate certain loss sharing strategies in the form of casualty insurance. These amendments expanded the loss sharing options available to System institutions for responding to financial stress.[32] At this time, the Reserve for Loan Loss account for the System as a whole stood at $700 million.[33] Because of the nature of the systemwide loss sharing agreements in place, whereby the entire system is jointly and severally liable for covering losses anywhere in the system in order to assure payment to security holders, it is necessary to track the Reserve for Loan Loss account from the national level.

[32] *Farm Credit Administration Annual Report, 1984.*
[33] Ibid.

In 1985, the Omaha Federal Land Bank (which included the state of Iowa) had an outstanding loan volume of $4.5 billion. That year it recorded an operating loss. The Federal Land Banks nationwide recorded a loss for 1985. The Production Credit Associations for the Omaha District (which included Iowa) reported a loan volume of $856 million. They also reported an operating loss for 1985. The Production Credit Associations nationwide recorded an operating loss for 1985. The entire Farm Credit System reported an operating loss for 1985, but had a Reserve for Loan Loss Account balance of $3.2 billion, up from $700 million in 1984. The addition to this balance came from the earnings for that year. On a nationwide basis, the increase offsets the reported loss on the financial statement.[34]

The 1986 financial report showed the Omaha Federal Land Bank loan volume at $3.6 billion. It showed a small operating loss. The Federal Land Banks nationwide showed an operating loss that was about half that of the previous year. The Omaha Production Credit Association showed a loan volume of $464 million. Like the Federal Land Bank, it showed a small operating loss for the year. Production Credit Associations nationwide showed an operating loss for 1986 that was less than 1985 and less than the addition to the Reserve for Loan Loss Account. The System as a whole reported an operating loss that was almost equal to the addition to the Reserve for Loan Loss Account. The Reserve for Loan Loss account at this year-end (after charge-offs) stood at $3.6 billion.[35]

The 1987 annual financial report showed the Omaha Federal Land Bank loan volume at $3.2 billion. The district showed a small operating loss for the year. The Federal Land

[34] *Farm Credit Administration Annual Report 1985.*
[35] *Farm Credit Administration Annual Report 1986.*

Banks nationwide showed a small operating loss. The Omaha Production Credit Associations showed a loan volume of $352 million, and a small operating profit. The Production Credit Associations nationwide showed an operating profit for the 1987 operating year. The Farm Credit System as a whole showed a small operating loss for the year (about 30 percent of the addition to the Reserve for Loan Loss account), but a year-end Reserve for Loan Loss account balance of $3 billion.[36]

By the end of 1988, the Omaha Federal Land Bank loan volume had been halved. The Omaha Production Credit Association loan volume had been reduced about 83 percent. That is a big reduction in short-term lending. Short-term lending is used to advance operating expenses when they are needed, so the sale of commodities can wait until the proper time in the cycle for each. It was also used to make the payments on the long-term loans for land, when the commodity income was insufficient. Therefore, the reduction in the volume is significant. It indicates that the operating expenses were either being paid from other sources, or not being paid. It also means that the payments on the land loans were not being advanced. By the end of this year, Congress ordered the System to transfer $196 million from the Reserve for Loan Loss account back into income. This meant that the system had taken out more money from its income than it had needed to cover its actual losses. In other words, it had unnecessarily increased its lending rate to borrowers through the changed method of putting money into its Reserve for Loan Loss account by over estimating the potential expenses on the loans and by possibly underestimating the asset values. Since those were the two calculations being done, the difference between the

[36] *Farm Credit Administration Annual Report 1987.*

estimates and the reality must be in one or both of these figures. Table 10 shows the activity in the Reserve for Loan Loss account nationally. Notice that the System, as a whole, only used about one-half of the funds it set aside into the Provision for Loss Account during the course of the 1980s crisis. The money to put into the account came from generated earnings for those years (through interest rates to borrowers).

Table 10: Farm Credit System Provision for Loan Loss Account 1984-1989.

PROVISION FOR LOSS ACCOUNT	BALANCE (000)	CHANGES (000)
1984	1326356	335096
1985	3189628	2968756
1986	3635300	1797700
1987	2951000	-195900
1988	1857500	-680600
1989	1577800	-284700

Source: Farm Credit Administration reports 1984-1990.

How the Farm Credit System put more income into the Loss Accounts

As previously mentioned, the Farm Credit System had already begun a tiered interest rate system to its borrowers. Those paying the lower rate would be in a better position to cash flow their expenses. Those being charged one of the higher rates would be less likely to cash flow their expenses.

In 1985, the Omaha Farm Credit District instituted a change in accounting for the Reserve for Loan Loss account. Rather than making one entry at the end of the year, entries would be made each month, based on more frequent assessments of the loans in the portfolio. The manner in which loans were assessed then became crucial.

The Omaha District used a "Recovery Value Worksheet" FCBO 6001 (Rev. 8-85) to assess its loans. (Note that the form was revised in August 1985, one month after the accounting procedure was revised.) A copy of the form is in Appendix B of this paper. When loan officers used this form, they put in numbers and performed the calculations called for on the form. By the time the form was completed, the expenses had doubled, but the income had not -- even though potential additional sources were allowed for on the form. Some of the expenses were only necessary if the loan was being liquidated, thus increasing the total of the expenses being considered. As the rate of interest was being increased (due to both the tiered rate system as well as the increasing costs of the securities), the recovery value was deteriorating. These forms were used to classify the loans, thus determining their interest rate. As the increased potential losses were being determined from the calculations done with this analysis form, the operating spread of the Associations (and the District) was being increased as well in order to be able to make the accounting entry for these potential losses. The lending rate to the borrower was determined by starting with the average rate of the outstanding securities of the system, and adding a spread to allow for the projected expenses of the system to conduct business. As the increasing estimate of potential losses was increasing the spread being added to the base cost of the securities, the beginning rate to the borrowers was going up (and being put into the loan analysis form for calculations to determine potential losses). This increased the base lending rate before the tiered rates were then determined for all of the loans that did not fall into the classification for the lowest beginning rate. As the loan categories were separated by increasing spreads on each category, the rates for all but the lowest were going up faster than the base average cost of the securities of the system. This negatively impacted the calculations each time they were repeated. In other words, there was a "snowball effect" at work.[37]

To this process was then added the asset values. This report deliberately did not use the average equity position at this time because it was being calculated using inflated land values (being fed by the availability of loan funds). Once the value of these inflated assets began falling -- as determined by the appraisals of the Federal Land Bank's county benchmark farms -- those declining values were plugged into the Recovery Value Worksheet. Even if the expenses had not been doubled, the declining asset values would deteriorate the loan position, thus "legitimizing" an increased interest rate for the loan.

Table 11: Average Value per Acre for Iowa Farms 1975-1986.

YEAR	IOWA FARMS AVERAGE/ACRE
1975	1095
1976	1368
1977	1450
1978	1646
1979	1958
1980	2066
1981	2147
1982	1801
1983	1691
1984	1357
1985	948
1986	787

Source: Agricultural Statistics, Iowa Department of Agriculture 1987.

[37] As an employee of the Farm Credit System from 1971 to 1986, it was my job to know how these calculations were being made and how they were being booked on the accounts of the system.

From the high of $2066 per acre in 1980 (according to Table 11) to the low of $787 per acre in 1986, there was a 61 percent drop in value. These are averages. Some were higher; some were lower. All of these factors were out of the control of the farmer/borrower. As examiners for the System, the Farm Credit Administration (the national overseers for the System) had the final control over the loan forms in use. According to the audit manual, part of the job of examination involves the forms and their proper use.

The regulations of the System state that when it is determined that the collection of interest is in jeopardy, the loan must be transferred to the nonaccrual status. That entry collapses the interest due at the time of transfer, any accounts receivable -- in short, all balances due -- into the principle balance and places that balance in what is supposed to be a nonaccrual account. This is not a nonaccrual account to the borrower; this is a nonaccrual account for the System. The System operates by calculating its income on the interest accrual method, rather than the interest paid method. This means that when it appears the accruing interest will not be paid, the accrual must be stopped in order to stop accruing income that cannot be collected for cash. The computer continued to maintain what is called a "memo" interest calculation -- at the highest rate being charged by the Association because the loans in process of liquidation were classified as high risk -- and that was added to the principle balance (along with any charges made to the loan for expenses involved in the liquidation) for collection purposes.[38]

The System, as did other farm lenders, also applied to the FmHA for their loan guarantee plan (which was expanded during the crisis) -- if a loan could qualify. Under the

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[38] Ibid.

terms of this plan, if the loan defaulted, the lender could collect the guarantee from FmHA. While some of these may have worked as they were envisioned, others did not. A Federal Grand Jury investigation for the Northern District of Iowa in Cedar Rapids filed a court brief April 28, 1992, documenting that the Omaha Farm Credit System did willfully misrepresent borrower paperwork in order to qualify a loan for the guarantee loan program, not advance operating funds in order to force a liquidation of the loan, and then collect the guarantee. In order to hide the name of the parties involved in the suit, it was filed as United States of America, Plaintiff, vs. Three Million Dollars, Defendant. While all of the documents involved in this investigation were sealed by the federal prosecutor for the Northern District of Iowa, copies of official letters from one of the cases are included with this paper because they were originally presented in open court prior to the initiation of the Grand Jury investigation. A later investigation resulted in similar findings and another fine. The Farm Credit System paid the fine, and may have made undisclosed settlements with the individual borrowers involved -- all are sworn to secrecy.

The 1987 Farm Credit Act, in addition to its many changes to the System, also included the establishment of credit review committees as an appeal process for borrowers who had been refused restructuring.[39] (Restructuring was supposed to be an option in cases where the analysis form showed that it would be more cost effective for the lender to restructure the loan rather than liquidate it.)[40] In a case filed in July 1988, the decision of a credit review committee not to restructure a loan was taken before the United States District Court District of North Dakota Southeastern Division. The reason for bringing this up in an

[39] The audit manual for the system includes this information. The *Code of Federal Regulations* includes this information. The system's annual report for 1988 includes this information.
[40] *Code of Federal Regulations* 614.4517.

examination of practices in Iowa is because it established case law which was then used nationwide, including Iowa. This case eventually went to the U.S. Court of Appeals and was upheld. It was eventually overturned, but by that time it was a moot point. The final paragraph of the District Court judge's decision is important in understanding what was happening during the 1980s farm crisis:

> As Plaintiff's counsel has accurately pointed out, this court's holding means that an aggrieved farmer has no remedy through the federal courts in review of possibly erroneous, malicious, anti-social and unpatriotic acts of credit review committees. Congress confers jurisdiction upon federal courts in areas of statutory remedies. It has not done so here. Accordingly, the complaint is dismissed.[41]

What this means is that Congress considered this a matter between the farmer/borrower and the lender. As long as the borrower followed the letter of the law in Title 12 United States Code Annotated, which did not cover the nature of the calculations nor the accuracy of the numbers chosen for the forms, neither the courts nor Congress was going to stop the process taking place.

Under the Administrative Procedures Act (APA), passed in 1946, a framework was established for governing federal agency action.[42] (The Farm Credit Administration -- the overseer of the Farm Credit System -- is the agency.) Congress can enact legislation that supercedes the authority vested with the agencies, and the President can issue an executive order that supercedes the authority of the APA. The APA provides a blueprint of administrative law by establishing minimum procedural requirements for many types of agency actions, specifically rule making and adjudication. (Adjudication refers to case-by-

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[41] Civil Action No. A3-88-115, Raymond P. Zajac, and Helen Ann Zajac, Plaintiff vs. Federal Land Bank of St. Paul, Defendant, In the United States District Court District of North Dakota Southeastern Division, July 19, 1988.

[42] Frona M. Powell, *Law and the Environment* (West Educational Publishing Company, 1998).

case decision making by the agency in a hearing with trial-like procedures.) The APA also provides a framework for judicial review of administrative decision making. It addresses the availability of review of agency action, the scope of judicial review, and court review of agency inaction.

An administrative agency (which the Farm Credit Administration is as the regulator of the Farm Credit System) may exercise different kinds of powers as long as its enabling legislation either states expressly or implies that it can do so. The APA confers two important powers: policy making through rule making and policy making through adjudication. An agency makes policy through rule making by issuing legislative rules and regulation. In other words, when the FCA writes regulations for the system, it is making policy for the system. It has the authority to do this because it is an agency of the federal government, thus it is covered by the APA. Policy making through adjudication occurs when the agency acts like a judicial body and applies legal standards set out by statute or regulation (which they have written, usually) to the facts in a particular case in a hearing. This is what the credit review committees were doing. The courts have established a precedent that they will recognize an agency's authority to formulate policy through various means as long as its enabling legislation allowed it to do so. This means that the courts considered the loan liquidations to be a matter between the lender and the borrower. Even if the borrowers had understood the manipulated paperwork, they were almost powerless to bring it to the attention of authorities to take any action. Both the Congress and the President had authority to override what was happening, under the terms of the APA legislation, but took no action to do so.

The actions of both the Executive Branch and the Legislative branch of government (at the national level) during the farm crisis of the 1980s show that they agreed with the farm restructuring policy of free trade capitalism, as promoted and set forth in many documents (including the recommended farm policy of the Committee for Economic Development and the Young Executive Report), by implementing legislation that would accomplish the restructuring of agriculture. Opportunities were presented to the Executive Branch through its agencies and to the Legislative Branch through Congress to step in and take action that would have changed the course of events, but they chose not to take that action. Because these two branches of government took no action, the Judicial Branch was limited in taking action. Restructuring proceeded, as planned.

CHAPTER FIVE

THE IMPACT TO IOWA

Farm restructuring caused a change in demographics

The farm crisis of the 1980s destabilized the financial position of farmers and the farm service sector that relied on numbers of farmers and farm income for survival. All businesses need markets. When a sufficient-sized market is not there, or if the potential market does not have the money to buy (thus, not in the market), the businesses must either consolidate or go out of business. The rural areas, whose small towns and rural counties relied on numbers of farmers and farm-related businesses as an income base, saw a decline.

Table 12 shows that from 1964 to 1987, the number of Iowa farm operators declined 32 percent. From 1978 to 1987 the decline was 17 percent.

Personal income data for the state of Iowa shows that between 1969 and 1997, personal income rose 548 percent (not adjusting for inflation). Farm income, in the same timeframe, rose 152 percent (not allowing for inflation).[1] Farm income, in 1980, was lower

[1] Department of Labor, Bureau of Labor Statistics, 1998: ww.econ.ag.gov/briefing/fbe/fi/finfidmu.htm.

than in 1969 by over 50 percent. In 1983, farm income was negative. This represents a loss of buying power for those on the farm.

The gradual shift to larger and fewer farms had an impact on both numbers and income. Table 13 shows the decline in farms nationally and for Iowa. In twenty-five years, Iowa lost approximately 58,000 farms, or about 580 per county. Table 14 shows that this was a loss of 35.56 percent in tenant farms and a loss of 32.33 percent in fully owned farms.[2]

Table 12: Iowa Farm Operators by Age Cohort 1964-1987.

OPERATORS BY AGE	1964	1969	1974	1978	1982	1987	PCT. CHG
Under 25 years	3654	3600	4280	6339	5602	2852	-21.95
25-34 years	20677	18374	15835	19205	20346	17458	-15.57
35-44 years	37144	31235	24153	23918	22548	21282	-42.70
45-54 years	41538	39255	33668	30341	26104	21744	-47.65
55-64 years	33092	33543	31404	28959	27594	25287	-23.59
65+ years	18057	14347	15335	12577	13219	16557	-8.31

Source: Census of Agriculture.

Table 13: Number of Farms and Acres per Farm 1964-1990.

YEAR	U.S. (000)	IOWA (000)	U.S. Acres	IOWA Acres
1964	3457	162	332	214
1969	2999	147	369	234
1974	2830	138	384	249
1978	2436	123	429	275
1982	2401	117	427	288
1987	2213	107	451	313
1990	2143	104	461	322

Source: Iowa Farm Outlook Charts, 1990-91, Iowa State University Extension.

[2] Iowa State University, *Iowa Farm Trends*, 48.

In addition, the acreage in farms declined from 33,758,321 in 1964 to 31,638,130 in 1987. The loss of 2,120,191 acres is roughly 6 percent (averaging about 21,000 acres per county). The average cropland harvested as a percentage of average acreage, by 1987, was almost reduced to the levels of 1969, as Table 13 shows.

Table 14: Breakdown of Iowa Farm Ownership 1969-1987.

	1969	1974	1978	1982	1987
ALL FARMS	57.45	69.86	70.87	74.01	64.75
Tenant	64.20	76.25	76.88	79.93	70.30
Part owned	60.03	73.09	73.19	76.48	67.07
Fully owned	49.88	61.73	63.01	65.61	55.24

Source: Census of Agriculture.

The reduction in cropland harvested from the previous increases over twenty years would reduce the inputs being purchased from local suppliers, who had come to rely on that business in order to remain in business. Land enrolled in the Conservation Reserve Program or put back into the Wetlands Preservation Program would reduce the income for the farming operation, so other purchases could also be down. Note in the statistics in Table 15 that the income from government payments had increased substantially by 1978 in terms of its percentage to the total farm income for Iowa.

When the income statistics are adjusted for constant dollars in 1989 equivalents, there is actually a net loss of 38.03 percent.[3] The reduction in crop income was 50.78 percent and the loss of livestock income of 37.38 percent. The government payments, on the other hand, increased 2605.63 percent. When the farm expenses from 1970 to 1989 are adjusted in terms

[3]Ibid.

of 1989 dollar equivalents, the largest change was in real estate interest (up 124.29 percent).[4]

Another casualty of the loss of farms and farmers is the decline of population generally. Census figures show that the Iowa population was 2,913,018 in 1980 (as the crisis was getting starting), and 2,767,006 in 1987(as the crisis was abating). This is an approximate loss of 147,000 people.[5] By 1990, some were returning.

Table 15: Iowa Farm Income Breakdown by Source.

INCOME ($)	1974	1978	1982	1987	1989
CROPS	4,278,995	3,635,989	3,110,845	3,509,853	3,910,838
LIVESTOCK	3,797,821	5,419,627	6,023,827	5,270,686	5,196,972
GOVERNMENT	16,596	270,987	215,869	1,987,685	981,206

Source: National Agricultural Statistics Service, Economic Research Service USDA.
http://profiles.iastate.edu/download/profiles/

Census figures by age cohorts in Table 16 show that the people leaving were the younger men and women who would eventually be starting families. Compared to the age cohorts of those in farming (as shown in Table 12), it can be seen that farming lost from all age groups. The biggest losses for the farming groups were the ages 25-54. Those are the ages that need to be maintained for the business to remain vital.

The maps for Iowa (in Appendix A) show per county changes for: change in farming's share of total employment, percentage change in retail and wholesale employment, percent change in manufacturing employment, change in manufacturing's share of total

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[4] Ibid.

[5] "State Population and Household Estimates with Age, Sex and Components of Change: 1981-1987," *Current Population Reports, Population Estimates and Projections,* U.S. Bureau of the Census; *Vital Statistics,* Iowa Department of Health, 1988.

employment, change in retail and wholesale's share of total employment, and change in wage and salary's share of total employment.[6]

For comparison purposes, look at the corresponding changes for a rural county and a county on the fringe of the Golden Circle Area of Des Moines: Greene and Jasper.

Table 16: Iowa Population by Age Cohorts 1980-1990.

	IOWA POPULATION		
Age Cohorts	1980	1990	CHANGE
Under 5	221445	193203	-28242
5-24	992261	809390	-182871
25-44	752433	823940	71507
45-54	281293	274428	-6865
55-64	278894	249688	-29206
65 & Older	387482	426106	38624
TOTAL	2913808	2776755	-137053

Source: Bureau of the Census U.S. Dept. of Commerce.

Greene County is a rural county whose largest town of Jefferson has fewer than 5,000 people. There are no major employers in the area that dominate the work force. Many of its businesses rely on farming and/or farm income as a major source of their income. This would be typical of rural counties in Iowa. In Table 17, note that in rural areas like these, where off-farm employment opportunities are more limited, the general migration between 1980 and 1990 was out for all age groups. The change in farming's share of total employment for Greene County falls into the category of -4.0 percent to -2.3 percent. Percent change in retail and wholesale employment was -13.1 percent. The percent change in manufacturing employment was -17.1 percent. The change in manufacturing's share of total employment was -1.2 percent. The change in retail and wholesale's share of total

[6] Data from the Regional Economic Information System, Bureau of Economic Analysis, 1988, supplied by the Economics Department Iowa State University.

employment was -1.2 percent. The change in wage and salary's share of total employment was -5.4 percent. The percent change in wage and salary employment was -14.3 percent. These were all more than the state average, although not the worst in the state. In Table 18, the situation for Jasper County is different, with different results.

Table 17: Age Cohorts for Greene County Iowa 1980-1990.

Age Cohorts	1980	1990	CHANGE
Under 5	877	636	-241
5-24	3587	2466	-1121
25-44	3554	2601	-953
45-54	1237	982	-255
55-64	1342	1098	-244
65 & Older	2314	2262	-52
TOTAL	12911	10045	-2866

Source: Census Bureau U.S. Department of Commerce.

Table 18: Jasper County Age Cohorts 1980-1990.

Age Cohorts	1980	1990	CHANGE
Under 5	2703	2242	-461
5-24	11478	9327	-2151
25-44	8437	10312	1875
45-54	4028	3736	-292
55-64	4812	3632	-1180
65& Older	4967	5546	579
TOTAL	36425	34795	-1630

Source: Bureau of the Census U.S. Department of Commerce.

In the case of Jasper County, the categories that did not decrease from 1980 to 1990 were the same as for the state as a whole: 25-44 and 65 and older. The major employer in Jasper County is the Maytag Company (with 25 percent of the workforce). There are other supporting businesses not dependent on agriculture. Therefore, while the county lost population, it did not lose as much (either count-wise or percentage-wise) as the more rural Greene County. The maps in Appendix A show that for Jasper County (just as for Polk County), the change in farming's share of total employment was between -2.2 percent and zero. The percentage change in retail and wholesale employment was 2.2 percent (better than the state average of -1.3 percent). The percentage change in manufacturing employment was 3.3 percent (better than the state average of -12.6 percent). The change in manufacturing's share of total employment was -0.1 percent. The change in retail and wholesale's share of total employment was -0.3 percent. The change in wage and salary's share of total employment was -2.2 percent (almost the same as the state average of -2.5 percent). The percentage change in wage and salary employment was 0.5 percent (better than the state average of -2.2 percent, but not as good as the Polk County average of 8.6 percent). Over 5,000 acres in Jasper County (former farms) have been taken out of agriculture production and put into a prairie preserve. (See next section.)

Changes in land use planning

Since the 1960s, land use planning in rural areas has become increasingly more complex, because of farm restructuring as well as with the enactment of laws to preserve areas and to return some areas to "their natural state" (however that is defined at points in time). At a time when farmers were exiting the profession, and farms were consolidating, various pieces of legislation worked to remove the amount of land from farming: Conservation Reserve Program (CRP), Wetlands Preservation Program (WPP), Wildlife

Habitat, Prairie Preserve, to name a few. While the reasons given for these varied, the removal was consistent with the recommendations contained in the Committee for Economic Development reports: remove resources from farming in order to "improve" it.

Those farmers who wanted to remove their land from production (thus reducing input expenses as well as income) discovered another option in addition to the CRP and the WPP: natural prairie or wildlife habitat. Due to society's changing perspective on the natural environment, a series of laws have been enacted to protect and preserve national lands, wilderness areas, and wildlife. This makes less land available.

A nationwide movement is underway to put land into wildlife habitat, or prairie preserve. While assessments are required to consider impacts on individuals, groups, and communities as well as the effects on historic, cultural, and scenic resources, sometimes the farmer who is tired of fighting for survival or who is close to retirement might see this as a socially acceptable way out.

The Tallgrass Prairie Preserve is one such program. Its purpose: "to preserve, restore, and manage a portion of the remaining critical northern tallgrass prairie habitat and associated habitats at widespread locations throughout western Minnesota and northwestern Iowa."[7] This would include portions of 48 counties in Minnesota and 37 counties in Iowa. The 1997 plan includes an estimate of the amount of "original" acres of tallgrass prairie in Minnesota and Iowa: 25 million acres. There was no reference as to how far back in time this 25 million acres may have actually existed, but it was estimated that 300,000 acres remained. The proposed plan was to preserve 77,000 acres in Iowa and Minnesota. This would be in

[7] U.S. Fish and Wildlife Service and U.S. Department of Interior Region 3, *Northern Tallgrass Prairie Habitat Preservation Area*, (Ft. Snelling: U.S. Dept. of Interior, 1997), i.

addition to the acres enrolled in the CRP and the WPP, each of which has a stated national goal of 50 million acres.

The goals for the Tallgrass Prairie project are:

(1) Preserve remnants of native tallgrass prairie to ensure protection of unique plant communities, native fish and wildlife, and historic and cultural sites.

(2) Restore native tallgrass prairie, including:

Enhancement of some of the best remaining degraded remnants of tallgrass prairie through management practices (burning, grazing, etc.) and inter-planting or seeding of native plant species. Associated natural wetland habitats including prairie wetlands (potholes), fens, wet prairie, and riverine areas could be enhanced as well. Also included would be the reconstruction of areas of tallgrass prairie using native plant species to buffer or connect remnant native prairie tracts.

(3) Conserve, manage, and restore the diversity and viability of native fish and wildlife populations associated with tallgrass prairie.

(4) Provide public areas for compatible wildlife-dependent uses, emphasizing increased public understanding of the tallgrass prairie.[8]

An analysis of the plan states that it is not technically possible to restore tallgrass prairie, but that will not stop the plan from proceeding. Some of the advantages put forth in this plan include reduced expenditures on such infrastructure as roads, and other things people would need, like water and sewers. For areas with less income to provide these

[8] Ibid.

services (possibly due to the loss of farmers and the farm income), the placing of land into this type of plan could appear as a solution to budget problems.

The Tallgrass Prairie Plan proposes that most of the land to be placed in the prairie preserve would come from agriculture. Iowa is acknowledged as the leading producer in the country of corn and soybeans. In addition, the leading five Minnesota counties that produce corn, soybeans, and wheat were all located in the proposed preserve. The potential loss of these top grain and soybean producing counties (if they are included in this preserve) is not seen as a problem by those who proposed the plan. Something else is not seen as a problem:

> During the past three to four decades, the agricultural community in the project area and across the Nation has experienced a dramatic shift from many smaller farm ownerships with diversified farming to just a few large farming operations that grow only two or three types of crops each year. In many instances, five, six, or even more small family farms have been bought out and transformed into one large ownership.[9]

A natural course of events is assumed, rather than looking at how farm policy has been driving the situation. In fact, the plan notes "The effect of government farm programs was not included in the analysis." [10]

The economic analysis of the project did not use a benefit cost analysis, but, instead, used an input-output model. Economic analyses for the agriculture sector do not use a benefit cost analysis. The proposed plan discussed agricultural income from the farming operation

[9] Ibid, 84.
[10] Ibid., 96.

as household income (rather than as business income whose expenses include the farm family living).[11]

One assumption of the analysis is that taking land out of production will not reduce the output or the income because of the increased production due to new technologies (which must be paid for, and which must take place somewhere). This assumes, obviously, a status quo in the level of production, not an increase to accommodate the increasing population (even at a reduced rate). There was no analysis done to determine what the food production needs would be over time. However, the proposed plan noted that CRP land could be reconverted to crop production (if it has not been planted to trees). No where in the discussion was it mentioned that CRP acres taken out of production were supposed to be marginal lands not best suited for production. It is possible there was an assumption that future science would figure out how to make this marginal land available for production, but no mention was made of this in the plan.

The acquisition of private land for a public purpose removes the private benefits associated with it. These are property rights guaranteed in the Constitution.[12] The purpose of public domain, in the first place, was to provide the opportunity for private land ownership (as well as to bring in needed revenue to the government). When land is removed from the potential market, then there is less land available for private use. The reduction of land available for private use can exert pressure on prices. The first time this happened in this country around 1900 when large portions of the remaining public domain was put into national parks and taken off the market. (The remaining public domain was closed with the

[11] Ibid., 96-7.
[12] United States Constitution, Fifth Amendment.

Taylor Grazing Act of 1934.) The extent to which these various land preserves are reversing private land to public land is further reducing what is available for the market.

A study for the future of livestock in Iowa

If there is going to be a restructuring of agriculture, then there must be a plan for its future. While national plans call generally for corporate agriculture, some state plans have been put forth. In 1989, a preliminary report (written by Carol Elliot and Kurt James of Iowa State University) on the future of jobs in animal agriculture in Iowa was released by the Iowa Business Council. Titled *Job Creation Potential in Animal Agriculture in Iowa*, it analyzed where the industry was and where it was likely going.

Seeing animal agriculture as a value-added industry whose receipts had dropped from 75 percent of Iowa's total farm receipts in the late 1960s and early 1970s to 55 percent during the 1980s, the stated purpose of this report was to recommend necessary changes to increase available jobs in this industry. The new jobs were estimated to provide $18,000 in wage and salary income per job. The poverty level at this time was $16,000 for a family of two. If 25 percent is used as an estimate for benefits, that would reduce the $18,000 income figure to the level of poverty.

The Iowa Business Council/Iowa State University report noted that off-farm income in Iowa had grown from 44 percent in 1983 to 90 percent in 1984. The Economic Research Service of the USDA, in its report "Agricultural Income and Finance A Situation and Outlook" for 1998 reported off-farm income for farmers nationally as shown in Table 19.

The Iowa Business Council report recommended revitalizing livestock production to create more jobs for farm families as well as new jobs in animal feeds, animal health, livestock and processing industries. It did not recommend more income for farming. This is probably due to the influence of free trade economics.

Table 19: Off-farm and on-farm earnings for U.S. farmers 1992-1997.

YEAR	OFF-FARM INCOME	ON-FARM EARNINGS	OFF-FARM % TO WHOLE
1992	35731	7180	83%
1993	35408	4815	88%
1994	38092	4376	90%
1995	39671	4720	89%
1996	40893	5535	88%
1997	42292	5251	89%

Source: Economic Research Service USDA
Agricultural Income A Situation and Outlook 1998.

The report acknowledged that the top hog processing firms of the 1970s had been replaced by a new generation of companies that specialize in low-cost slaughter. The three mentioned were: IBP, EXEL, and ConAgra (Monfort). The four largest beef packers already controlled 68 percent of the steer and heifer slaughter. Poultry was already acknowledged to be vertically integrated. The producers of the report saw Iowa as having fewer incentives for these companies to expand production in the state.[13]

After release of the report, a hearing was held before the Advisory Committee on Job Creation in Animal Agriculture.[14] The report on the testimony and the recommendations,

[13] "Job Creation in Animal Agriculture," Iowa Business Council, (Ames: Iowa State University, 1989), 5

[14] The Advisory Committee was composed of representatives from agri-business, Iowa State University, the Iowa Legislature.

"Job Creation in Animal Agriculture in Iowa A Statement By the Advisory Committee on Job Creation in Animal Agriculture," was written by Dennis Starleaf of Iowa State University and Myrt Levin of the Iowa Business Council. Testimony indicated that animal production would be more effective if there was a mixture of production systems: (1) farm family production; (2) farm family production as part of co-ops or contracting operations; (3) farm families as part of integrated operations. Testimony also pointed out that if Iowa chose to limit the type of operations from those listed, it would slowly lose its market share.[15]

Some testimony focused on cost studies which suggested that the new large intensively managed swine production facilities, such as North were highly competitive with the typical Iowa producer. "Small-scale Midwestern hog producers can survive in competition with large producers outside the Corn Belt."[16] Producers inside the Corn Belt were portrayed in testimony as being able to survive if they became very efficient. The report did not mention the impact of the disappearance of a cash market to the independent producers if an increasing number of farmers chose to raise hogs on contract (outside of the market system).

The report went into social concerns of environmental issues and land use planning. "Public policy decisions...must provide the guidelines that producers and local governments need to determine the location of animal production and processing facilities....Iowa appears to have more restrictive regulations for the disposal of dead animals and higher standards for the design of animal waste disposal systems than most other states....This may place Iowa at

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[15] "Job Creation in Animal Agriculture," xi.
[16] Ibid., 2.

a disadvantage in competing for the development of animal production and processing facilities with other states that have more lenient environmental regulations."[17]

The following six policies were developed and put forward in the report as ways to achieve the desired goal of keeping Iowa in the forefront of animal agriculture:

(1) Include economic, social and environmental policies that retain a strong job creation if Iowa is to keep its young people and rural communities;

(2) Involve all stakeholders when developing policies;

(3) Understand the economic consequences of desired social and environmental policies;

(4) Remember that animal agriculture enterprises will, and have, moved to regions perceived as being more amenable to their needs;

(5) Avoid using environmental rules to make social policy;

(6) Lean toward job creation when confronted with decisions on the introduction of new ideas and capital.[18]

The report held:

> There is significant concentration throughout the food industry beginning at the retail level. Concentration is not limited to meatpacking; it exists up and down the food chain. Efforts to drive inefficiency from the food system has led to inexpensive high quality food when measured against worldwide standards. Iowa cannot win in the medium term by attempting to redefine the direction of antitrust enforcement which ultimately is the single most potent weapon against concentration. To attempt to go it alone against national and international economic trends will result in reduced market share for animal products in Iowa and fewer jobs in the medium term. The federal government, however, should continue to review the effect of concentration on farmer incomes.[19]

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[17] Ibid., 7.
[18] Ibid., 25.
[19] Ibid., 25.

A more encompassing plan for Iowa as a whole

In November 1989 the Center for Economic Competitiveness in Menlo Park, California, released a report titled "Iowa's Future A quality economy for tomorrow: A Six Point Action Plan." While agriculture was not left out, the report proposed a plan for a process that would assist Iowa to restructure the entire economy in the wake of the agricultural crisis. It pointed out that over the past decade a new economy had developed around the world, changing what it takes to be competitive. Iowa's agricultural problems were blamed on the new world economy. The move into the new economy of the world market had increased production capacity with little growth in demand, and had rapidly changed technologies. In other words, the rapid move into the world market economy (allowed by the farm policy focused in that direction) was the cause for the 1980s farm crisis. On the assumption that the direction would not be changed, the recommendations for restructuring the Iowa economy would follow.

The report noted: "Iowa needs to take a more strategic approach to developing its economy because the external environment remains volatile and the pace of change remains fast."[20] The areas of focus were financial capital, technology, small business formation, quality of life and community development, human capital, and other actions. The report was to be a framework within which issues could be decided. The vision was one of diversification, adaptability, and value-added. These were to shape public and private

[20] "Iowa's Future A quality economy for tomorrow A Six Point Action Plan," (Menlo Park: Center for Economic Competitiveness, 1989), 3.

policies and initiatives.

Over 100 public meetings were held around the state after release of the report to show it to the public and engage those who attended the meetings in a controlled and directed discussion of alternatives. Since the group that had come together to form the committee and invite the Center for Economic Competitiveness to write the report was sponsored by the Iowa Newspaper Association, the public heard about these activities for a time, and then no more was heard of it.

The point to this effort, as well as the effort on animal agriculture in Iowa, was to direct the Iowa economy toward the emerging world market. If this was to be the new arena in which decisions were made and events occurred, then an understanding of it would be necessary. Those who made planning decisions and had been caught unaware when the 1980s farm crisis began would now have an opportunity to know the direction.

"Achieving success in these initiatives will require a broad public-private effort; thus, leadership must come from the local level as well as the state level and 'big business.'...The Iowa Future Project will now move to build commitment across Iowa and create a statewide coalition committed to moving the state forward."[21] The idea put forth by those associated with the Iowa Future Project was that it was an opportunity for planners in all areas to focus on the new market economy and work together to position Iowa. In 1993 Congress approved NAFTA (North American Free Trade Agreement). A year later Congress approved GATT (General Agreement on Tariffs and Trade). Both of these agreements pushed the world closer to a free market system, as originally envisioned by Adam Smith and other

[21] Ibid., 42.

philosophes of the Enlightenment.

Understanding the context of change

Those who must work with rural areas need to understand the restructuring taking place in order to recognize the conflicts between people and the general direction of policy. While there are many analyses of conflicts in rural areas, *Deep Disagreement in U.S. Agriculture Making Sense of Policy Conflict,* by Christopher Hamlin and Philip T. Shepard, classifies the thinking and the motivations into three categories: conventional productivism, ecological progressivism, and radical humanism.

Conventional productivism is the outgrowth of the Enlightenment free market system. According to the authors, those who fall into this category believe free markets will take care of whatever situation presents itself, if the markets and policies for them could be free to respond.

Those who fall into the category of ecological progressivism believe that the patchwork of compromise required of free markets fails to assure wise use of resources, nor does it have adequate safeguards for the natural environment and human health. Progressives want more expert management in all aspects of society.

Advocates of radical humanism want a radical shift away from industrialism through personal and community responsibility. Both ecological progressivists and radical humanists are linked to a critique of the industrial revolution, but progressives tend to worry about the sustainability of large systems and hope to substitute long-term thinking for short-term.

Radical humanists are more concerned with the effects of industrialization on persons and culture.[22] The humanists propose the Renaissance concept of standards in aesthetics as well as morality. For humanists, "enough" to meet the needs is not the same as "as much as one can get."

Three writers are cited as exemplary examples of each type of thinking. The authors analyze their writings in search of recognizable bases for categorizing the comments made by others who are involved with the restructuring taking place in rural areas and the consequences of it. Wendell Berry is the author for the radical humanists, pushing culture ahead of industrialization. Charles Walters Jr. is the author for the progressives, an outgrowth of the Grange, the Farmer's Alliance, the Farmer's Holiday Movement, and other similar organizations. *Agriculture 2000: A Look at the Future* (whose forward was written by former USDA Secretary John Block) sees a future of fewer but larger farms. The authors see the prototype of this projected future of agriculture as coming from the reports of the Committee for Economic Development (CED), although only the 1962 report is cited. According to the authors, the CED reports influenced the policy of Secretary of Agriculture Ezra Taft Benson in the Eisenhower Administration and the subsequent Democratic administrations. (Obviously, for the Eisenhower Administration to be influenced by an agriculture report from the C.E.D., it would have to have been either the 1946 or the 1955 and 1957 reports. They all made the same recommendations for policy.) Corporate agriculture was to be the future. According to this look at the future, agriculture today is not only on the right track, but it is on the only rational track. Remember that each of these four reports recommended forcing resources out of agriculture and into other areas by lowering

[22] Hamlin and Shepard, *Deep Disagreement in U.S. Agriculture*.

income, retraining farmers, and educating farm children to work in other professions. As cited in Chapter Three:

> 1) Gradual removal, within definite limits, of farm price and income supports...and a land retirement program dedicated...specifically and singly to reducing the resources devoted to agriculture, including both people and land; 2) disposal of surpluses now held by the government; 3) removal, at the end of a limited transition period, of acreage allotments and marketing controls; 4) special programs to assist farmers...to find a better livelihood in other industries.[23]

This is really the urbanization policy (of forcing people out of rural areas and into urban areas) at work.

These three views are then examined at length as to agriculture and human nature, nature, knowledge, social order, and praxis (a customary mode of behavior). The authors feel it is important for those who must work with individuals who hold one of these views to understand the basis of each. In this manner, it will be possible to work with conflict resolution. People can be using the same words but have very different meanings for those words. It is common to assume that others will come to share a viewpoint if they just have the "right" information, or can be "enlightened." The book points out that this is not the case, as many have come to realize. There are reasons for holding opinions.

The conclusion of the authors is:

> Within the U.S., not to mention many other places, discussions over the very basic matter of how we shall provide ourselves with food have passed during our lifetimes into an historical era of fracture and fragmentation, of disjuncture and ultimate impasse. In this process of historical change it is not only particular policies that have become threatened, but also the very possibility of making effective policy democratically. The gaps between where different people are coming from have grown so large as to strain trust in democratic processes, particularly processes of

[23] Committee for Economic Development Reports, (New York, 1945, 1955, 1957, 1962).

> open discussion. The frameworks that people use have grown so deeply divergent as to cast doubt on whether the other guy is even trying to be reasonable....Something different is needed to heal the rifts, and it must begin by respecting the divergences that have already occurred in people's ways of being reasonable, in their ideologies. Thus the larger enterprise is to bridge these differences without presuming on them, and not merely on paper, but in our political practices and especially in the policymaking process.[24]

The authors, Hamlin and Shepard, point out in their book that what we have is a crisis in policy making. As a faction has politically pushed their viewpoint -- as the proper course of action at the expense of other viewpoints -- it has fractured the democratic policy making process. Two ideologically different viewpoints have been at work in the United States since its war for independence. One of these viewpoints succeeded in politically implementing its policy, with impacts to all economically and socially. This has worked to effectively disenfranchise those with the opposing ideology. This has caused serious problems in the ability of individuals in these two groups to communicate and work together. An analogy for this situation would be the Balkans. In that area, different ideologies have practiced ethnic cleansing rather than trying to work together. As difficult as it may be, it is necessary to work through a change in the process that allows for each viewpoint to be more than verbalized. To do anything less would further fracture the fabric of our existence. This is the societal contract we have as a responsibility for others. As improved communications move people into closer contact with each other, there is a necessity to learn how to work out these differences in a manner other than the seizure of control by one and its ouster of the others.

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[24] Hamlin and Shepard, *Deep Disagreement in U.S. Agriculture,* 280.

Conclusion

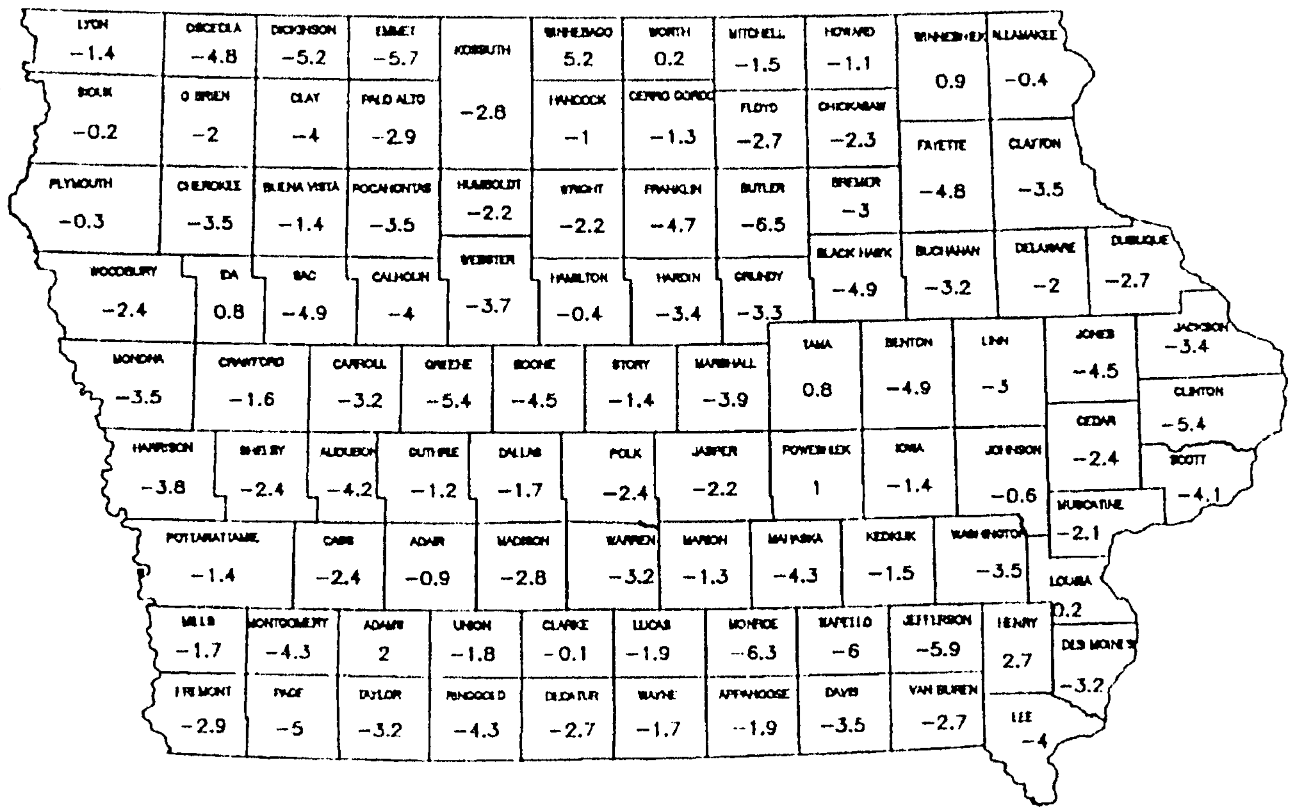
The debate over the ideology of our farm policy again took us into another farm crisis, this time in the 1980s. The debate over policy has been a part of our country since its founding. Today we appear to be even farther away from consensus than we were at the time of the Revolution.

Today, the free trade farm policies, as originally put forth by the philosophes of the Enlightenment Movement two hundred years ago, are moving us into contracted production. Under this type of system, a farmer agrees to grow something on contract, without owning the product as in the past, and receives a price per unit that is stated in the contract. In exchange for this lower perceived risk (where the price is known in advance), the lender that is financing the facilities charges a lower interest rate to the contractee. The rate to a borrower who is not on a contract is higher because of the perceived increased risk of not knowing what price will be received. The lower interest rate, coupled with the somewhat higher contracted price, provides a better cash flow to the farming operation. The multinational agribusinesses that have already expanded vertically and horizontally in their control of the food system have now extended their control over production. As the cash markets disappear to the independent producers, the only hope for them is the area of niche markets. The restructuring of agriculture toward this "efficiency" was what the farm crisis of the 1980s was all about. Because the Farm Credit System was the largest farm lender in market share, it was the vehicle of restructuring.

The farmers who were experiencing the stress of the crisis responded in either one of two general ways: 1) they figured out what direction farming was headed and became a part of it; 2) they organized in a similar fashion to past farm movements. The ideology of the first group would be that of conventional productivists (an outgrowth of Enlightenment thought as labeled by Hamlin and Shepard); the ideology of the second group would be either radical humanists or ecological progressives. As the next phase of restructuring takes place, these are the ideologies at work in the rural areas. While the free trade capitalists will speak of the events taking place in terms of market forces at work, those with a different ideology will speak in opposite terms. Those who work in, or who study, this area need to be aware of these differences.

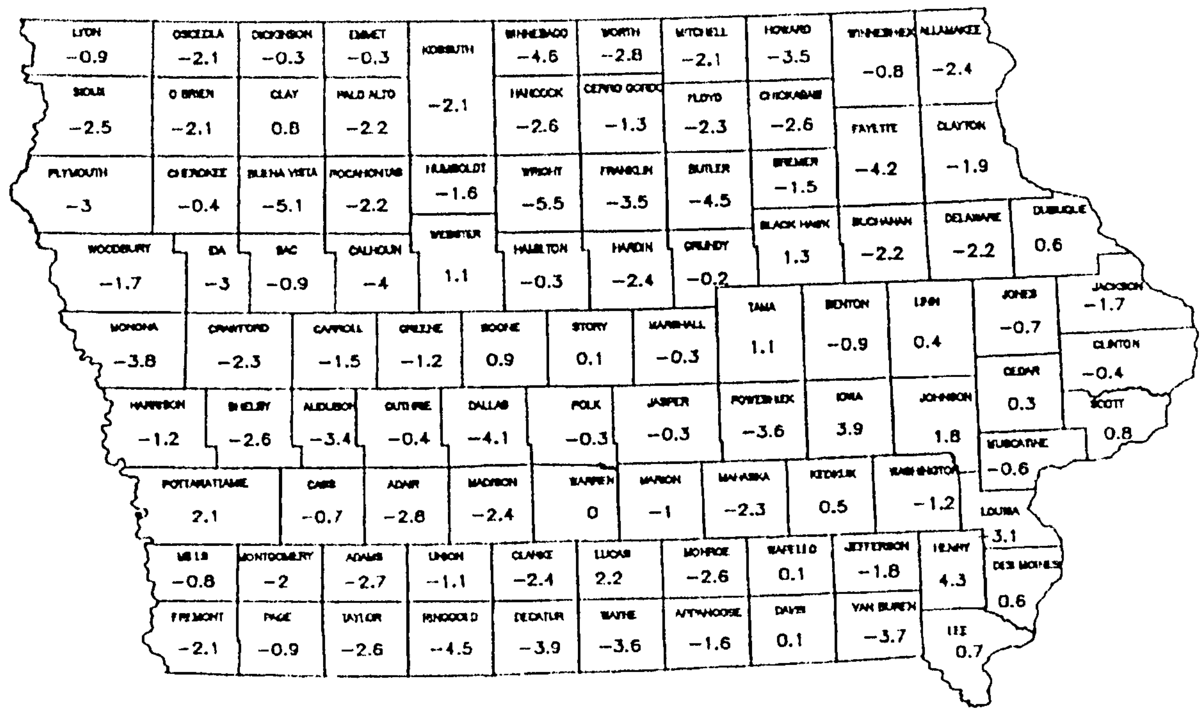
APPENDIX A

MAPS OF IOWA



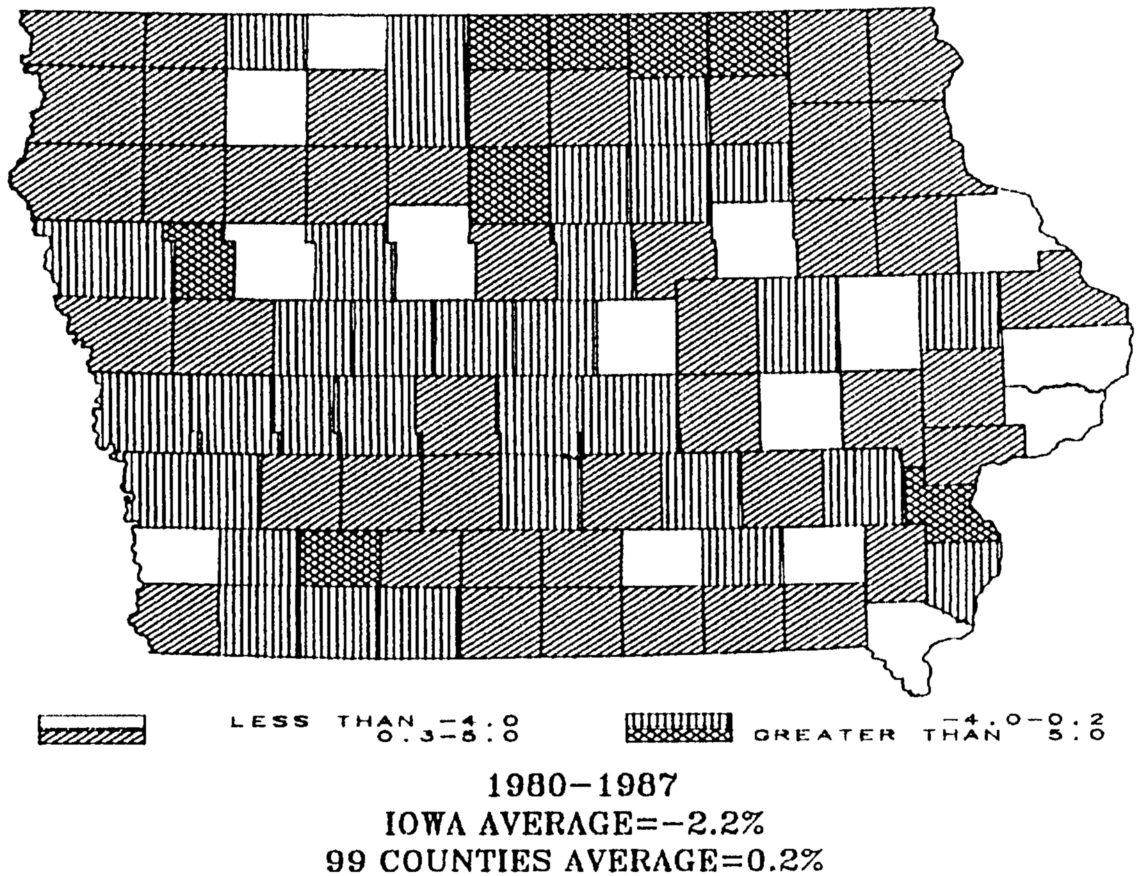
1980–1987
IOWA AVERAGE=–2.5%
99 COUNTIES AVERAGE=–2.5%

Change in Wage and Salary's Share of Total Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.

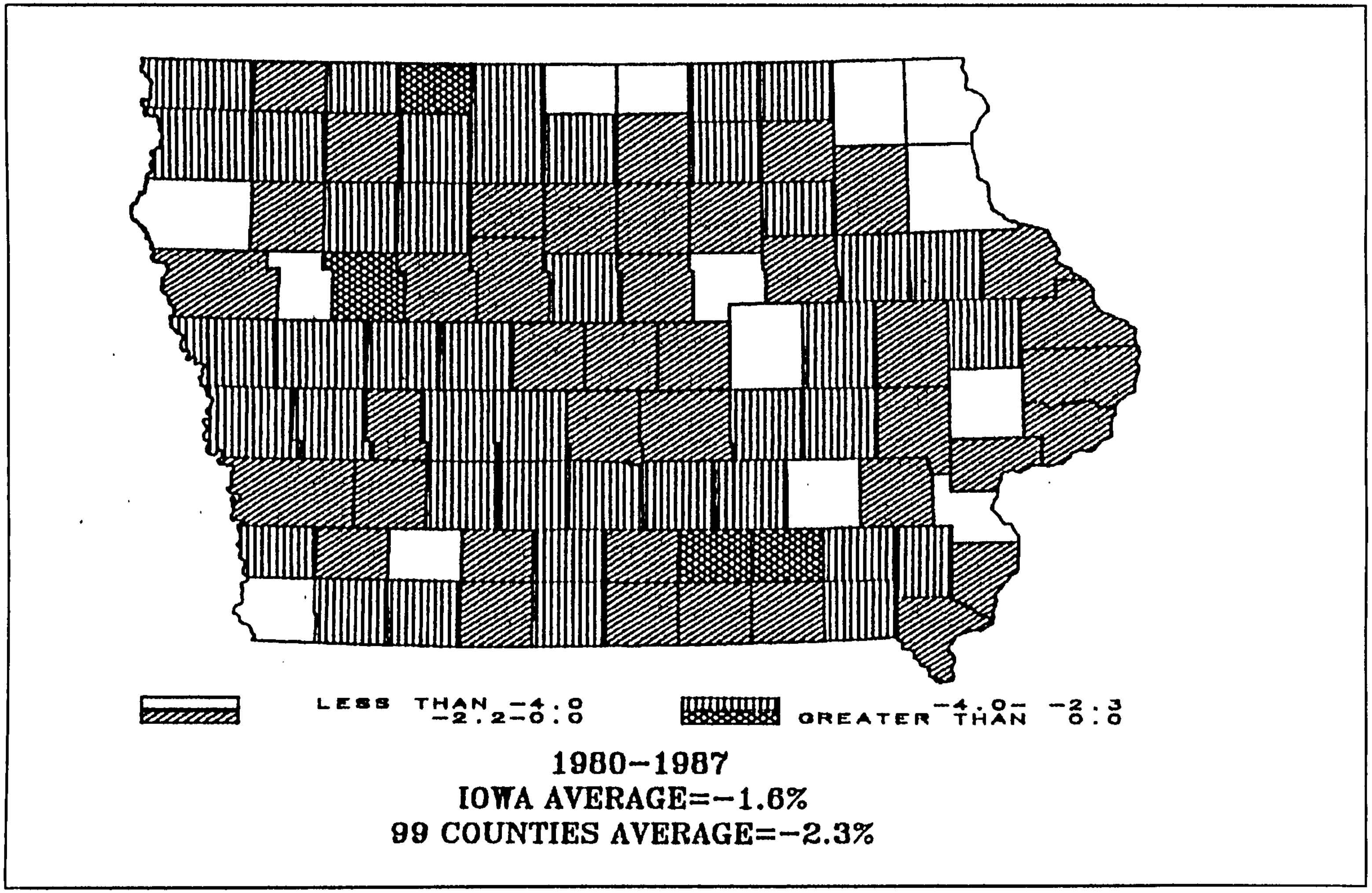


1980–1987
IOWA AVERAGE=–0.5%
99 COUNTIES AVERAGE=–1.4%

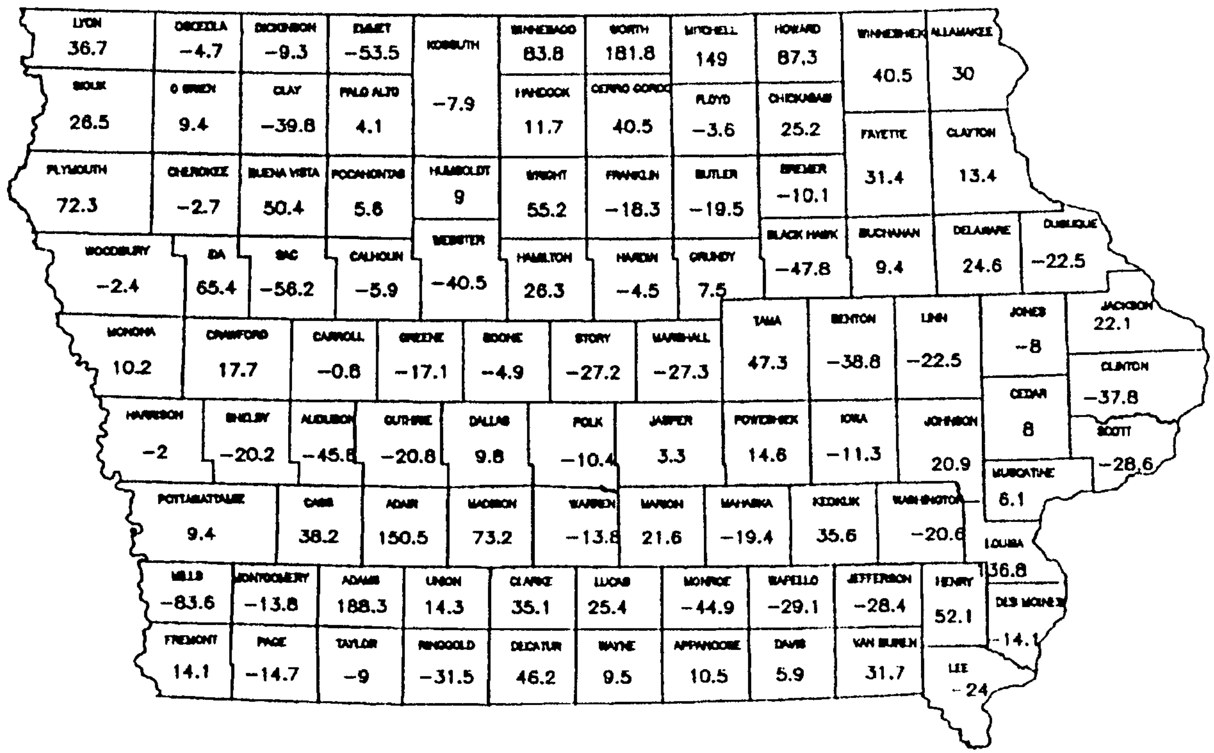
Change in Retail and Wholesale's Share of Total Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.



Change in Manufacturing's Share of Total Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.

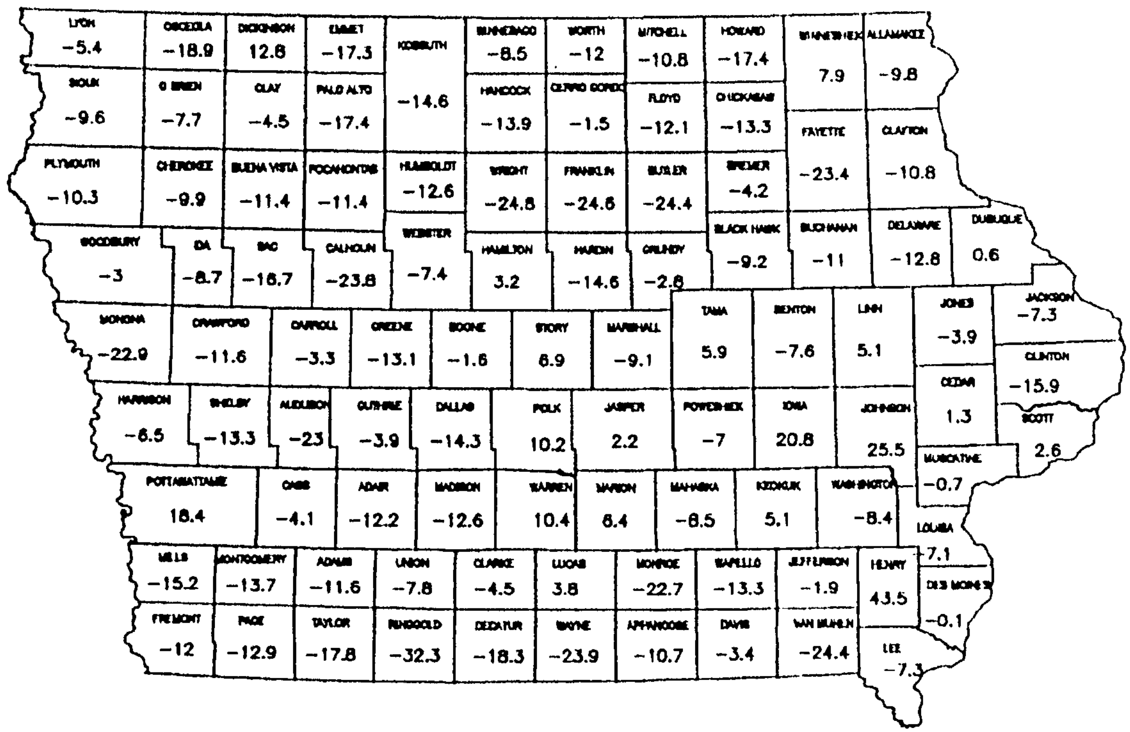


Change in Farming's Share of Total Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.



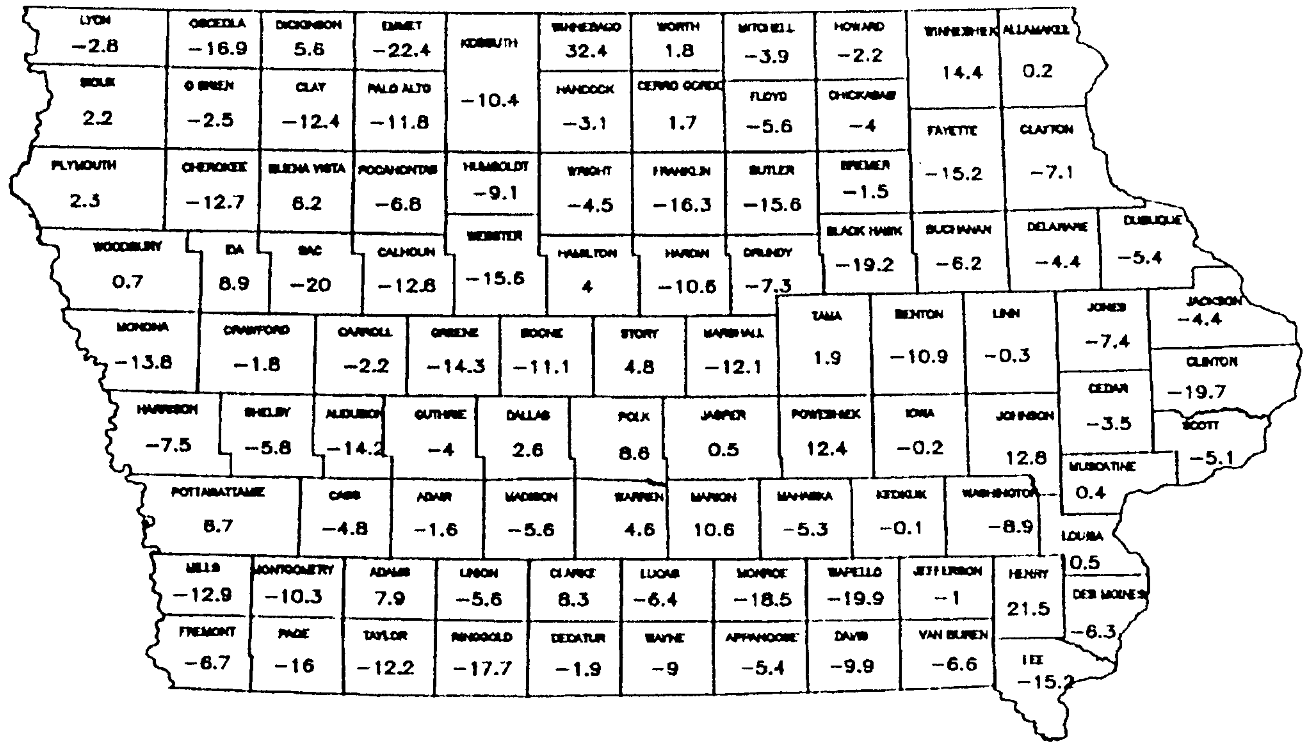
1980–1987
IOWA AVERAGE=−12.6%
99 COUNTIES AVERAGE=11.4%

Percentage Change in Manufacturing Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.



1980–1987
IOWA AVERAGE=−1.3%
99 COUNTIES AVERAGE=−7.5%

Percentage Change in Retail and Wholesale Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.



1980–1987
IOWA AVERAGE=–2.2%
99 COUNTIES AVERAGE=–4.4%

Percentage Change in Wage and Salary Employment.
Source: Regional Economic Information Service, Bureau of Economic Analysis, and Iowa State University Department of Economics.

APPENDIX B

LOAN ANALYSIS FORM AND TRIAL DOCUMENTS

Eighth Farm Credit District

FCBO
PCA- Page - -88
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NONPERFORMING LOAN ANALYSIS

1. LENDER ☐ PCA ☐ FLB P/F					8. PREPARER CODE
2. BORROWER	4. LOAN NUMBER	5. REGION	6. OFFICE LOCATION (City)	7. DATE PREPARED	

COLLATERAL VALUE OF SECURED ASSETS AS OF ____________, 19____

Asset Description (Quality, Market Destination, Location, etc.)	Appraisal Date	Appraisal Source	Qty.	Price/Unit	[illegible]	Prior Liens	[illegible]	Holding Costs: Main-tenance	Legal Fees	Int. on Prior Lns.	Taxes	Insur-ance	Selling Costs	Other	Total %	Total $	[illegible]
A. GROWING CROPS Estimated Holding Period ________																	
Total Growing Crops																	
B. HARVESTED CROPS AND FEED Estimated Holding Period ________																	
Total Harvested Crops and Feed																	
C. LIVESTOCK Estimated Holding Period ________																	
Total Livestock																	
D. MACHINERY AND EQUIPMENT Estimated Holding Period ________																	
Total Machinery and Equipment																	
E. ASSOCIATION STOCK AND PARTICIPATION CERTIFICATES																	
F. OTHER CHATTEL ASSETS Estimated Holding Period ________																	
Unallocated Prior Liens			***	***	***												
Total Other Chattel Assets								***	***	***	***	***	***	***	***		
G. TOTAL VALUE OF CHATTEL ASSETS					A.		B.									12.	13.
H. REAL ESTATE Estimated Holding Period ________																	
Total Real Estate					10.		11.										
I. TOTAL FOR ALL ASSETS (Sum of Sections A through H)																14.	15.

Source: Omaha Farm Credit District

FCBO
Page

I. TOTAL FOR ALL ASSETS (Sum of Sections A through H from page 1)	[illegible]	[illegible]	[illegible]

LOANS CURRENTLY IN ACCRUAL STATUS

J. ASSOCIATION LOAN - Principal Loan Balance		
- Accrued Interest		
- Accounts Receivable/Payable (Net)		
Total Association Loan		
K. LOAN RECOVERY MARGIN		

LOANS CURRENTLY IN NONACCRUAL STATUS

L. PRESENT NET NONACCRUAL AMOUNT*	
M. NONACCRUAL MARGIN	

*Not the total of borrower's legal obligation - Do not use this amount for credit analysis or for negotiating a loan settlement agreement.

N. SPECIFIC RESERVE

☐ Initial (I) I/R
☐ Replacement of Previous Specific Reserve (R)

O. ACTIONS REQUIRED *(Check only one action)*

☐ 1. Transfer to Nonaccrual and Book Loss,* if appropriate
 ☐ a. Retire PCA Stock/P.C.s ☐ b. Do not retire PCA Stock/P.C.s
☐ 2. Additional Chargeoff*
☐ 3. Reinstatement from Nonaccrual* *(Explain in comments area.)*
☐ 4. Reversal of Error* *(Explain in comments area.)*
☐ 5. Recovery* due to *(Explain in comments area.)*
 ☐ a. Cash payment ☐ b. Collateral analysis
 ☐ c. Previous chargeoff of holding costs
☐ 6. Retire PCA Stock/P.C.s
☐ 7. No Action Required

ACTION AMOUNT
ACTION CODE

P. LOAN STATUS

CREDIT CLASS: 1/2/3/4
☐ Acceptable (1) ☐ Borderline Acceptable (1)R
☐ Problem (2) ☐ Vulnerable (3) ☐ Loss (4)

NONPERFORMING LOAN DESIGNATION: H/O/F/N
☐ Other high risk (H) ☐ Other restruct. or reduced rate (O)
☐ Formally restructured (F) ☐ Nonaccrual (N)

REPAYMENT STATUS: C/D
☐ Current ☐ Delinquent ______ days

LOAN ACCELERATED: Y/N
☐ Yes ☐ No

Q. COMMENTS:

R. BENCHMARK IDENTIFICATION

Tract 1			Tract 2			Tract 3		
Contributory Building (P/M/V)			Contributory Building (P/M/V)			Contributory Building (P/M/V)		
Benchmark Number	Percent Security/ Benchmark	Acres	Benchmark Number	Percent Security/ Benchmark	Acres	Benchmark Number	Percent Security/ Benchmark	Acres
Total			Total			Total		

S. SIGNATURES

PREPARER SIGNATURE	DATE SIGNED	
APPROVAL SIGNATURE (when required)	DATE APPROVED	APPROVER CODE

REVIEW DATE(S)			
REVIEWER INITIALS			
REVIEWER CODE			

Source: Omaha Farm Credit District

FCBO 8001 (Rev. 8-85)
Page 1

Farm Credit Banks of Omaha

RECOVERY VALUE WORKSHEET

Assn & Br.: ____________

PART I. PRESENT RECOVERY VALUE as of (date) ____________

Date	(Source	Security)	Asset Description (Quality, Market Designation, Location, Etc.)	Quantity	Value ($)	Total Value ($)	Recovery Value ($) Collateral	Financial Pos.
A. GROWING CROPS								
			TOTAL GROWING CROPS					
			Prior Liens					
			Costs of Harvesting and Marketing					
			RECOVERY VALUE OF GROWING CROPS					
B. HARVESTED CROPS AND FEED								
			TOTAL HARVESTED CROPS AND FEED					
			Prior Liens					
			Selling Costs					
			RECOVERY VALUE OF HARVESTED CROPS AND FEED					
C. LIVESTOCK								
			TOTAL LIVESTOCK					
			Prior Liens					
			Selling Costs					
			RECOVERY VALUE OF LIVESTOCK					
D. MACHINERY AND EQUIPMENT								
			VALUE					
			Prior Liens					
			Selling Costs					
			RECOVERY VALUE OF MACHINERY AND EQUIPMENT					
Use if liens on chattels aren't tied to specific chattels & aren't itemized above			SUBTOTAL - Recovery Value of Chattels					
			Chattle Liens or Unsecured Debt					
			Total Recovery Value of Chattels					
E. REAL ESTATE								
			TOTAL REAL ESTATE					
			Prior Liens					
			Exemptions (Homestead, Etc.)					
			Selling Costs					
			Recovery Value of Real Estate					
			Association Liens (PCA Use Only)					
			AVAILABLE RECOVERY VALUE OF REAL ESTATE					
F. ASSOCIATION STOCK AND PARTICIPATION CERTIFICATES								
G. OTHER ASSETS								
			TOTAL OTHER ASSETS					
			Prior Liens					
			Exemptions					
			Selling Costs					
			RECOVERY VALUE OF OTHER ASSETS					
H. AVAILABLE RECOVERY VALUE OF ALL ASSETS								
Estimated Holding Period.* (Time)			Deductions on real estate during holding period. Maintenance-$ ______; Legal fees-$ ______; Interest on prior liens-$ ______; Taxes-$ ______; Insurance-$ ______ TOTAL DEDUCTIONS			Collection Basis*		
			TOTAL RECOVERY VALUE					
I. ASSOCIATION LOAN:			Principal Loan Balance					
			Accrued Interest					
			Accounts Receivable/Payable (Net)					
			TOTAL Association Loan					
J. LOAN RECOVERY MARGIN:			Amount					
			; Percent			%	%	%

* Collection Basis is required for all Loss loans and for Vulnerable loans in collection. Use "Collateral" column from H as starting Recovery Value. Use for other loans if needed for analysis.

PREPARED BY (Signature)	DATE	BORROWER AND LOAN NUMBER

Source: Omaha Farm Credit District

REVIEWER | REVIEWED (Date, initial and attach comment sheet, if necessary)

FCSO 8001 (Rev. 8-85)
Page 2

PART II. ADDITIONAL RECOVERY VALUE through (date) ____________
(Complete for loans classified 1 and 2, and for 3 loans not in liquidation)

	Collateral	Financial Position
A. Loan Recovery Margin (from PART I - Section J)	$ ______	$ ______
B. Additional Repayment Capacity		
1. Net Selling Price of Assets to be Sold	$ ______	$ ______
2. Additional Recovery Value of Production	$ ______	$ ______
3. Additional Income From Other Sources	$ ______	$ ______
C. Gross Repayment Capacity (Add Lines A, B1, B2, and B3)	$ ______	$ ______
D. Deduction to Generate Repayment Capacity		
1. Recovery Value of Assets to be Sold For Repayment (Values from PART I for the items reported sold on Lines B1 and B2 above)	$ ______	$ ______
2. Cash Expenses	$ ______	$ ______
3. Non-Cash Expenses (Including depreciation, and interest on prior liens, taxes, etc., if not included in #2 above).	$ ______	$ ______
4. Total Deductions (Add Lines D1 through D3)	$ ______	$ ______
E. Recovery Margin on this Association Loan (Line C minus Line D4)	$ ______	$ ______
F. Net Loan Recovery Margin From Other Association Loans (Part II, Line K for collateral position; Part II, Line G for financial position)	$ ______	$ ______
G. Total Recovery Margin For This Association Loan (Add Lines E and F)	$ ______	$ ______
H. Projected Interest on Association Loan (Include all association loans in financial position)	$ ______	$ ______
I. Net Loan Recovery Margin (Line G minus Line H)	$ ______	$ ______
J. Acceptable Margin ______ %	$ ______	$ ______
K. Recovery Margin Excess or Shortage (Section I minus Section J)	$ ______	$ ______
L. Days to Nonaccrual Status (Vulnerable Loans)	______	______

PART III. ANALYSIS OF RECOVERY VALUE INFORMATION

A. **Individual or Entity:** Do the individuals and entities responsible for repayment of the association loan have verified ability and commitment to realistically meet or exceed the repayment requirement of this loan? Yes ____ No ____ Comments: ____

B. **Basis of Approval:** Do the documented loan terms and conditions, established with the responsible individuals and entities, provide the needed repayment for this loan? Yes ____ No ____ Comments: ____

Are the responsible individuals and entities complying with the established loan terms and conditions, such that the repayment of this loan is not in jeopardy? Yes ____ No ____ Comments: ____

C. **Association Loan Servicing:** Does the association have an effective plan for supervision and control of this loan that assures repayment performance by the borrower? Yes ____ No ____ Comments: ____

If loan is classified loss or is a vulnerable loan in collection, complete "Collection Basis" in Part I, Sections H, I, and J.

Source: Omaha Farm Credit District

South Central Iowa
Production Credit Association
P. O. Box 387
Creston, Iowa 50801 515-782-6471

EXHIBIT
24
9-11-86

August 1, 1985

Mr. Verlyn Carlson
Credit Approvals Department
Farm Credit Banks of Omaha
206 Farm Credit Building
Omaha, NE 68102

Dear Verlyn:

As per your request, I have done a substantial amount of work on the Caviness Farms loan with the South Central Iowa Production Credit Association. As you might recall, Bob Vavra has been doing all the work on this loan and that is part of the reason I was not in a position to comment concerning your questions and concerns about these borrowers.

It would appear that, overall, these borrowers have not varied substantially from the projections although it is the opinion of the Association that further deterioration is very likely. The Association has a plan of action to collect this loan, that plan being that when the guaranteed loan is due that efforts will be made to accelerate the indebtedness and ask for payment as per the terms of the guarantee. The Association is very confident that no funds will be available to make the guaranteed loan payment. The Association is also very reluctant to indicate this plan of action in anything but an informal letter such as this which will not be part of the permanent loan file. In order for the Association to collect this loan, it is anticipated litigation will be involved and no doubt the content of the loan folder would be revealed in litigation. If the Association indicates in its loan comments that it entered into the guaranteed loan with these borrowers with the sole intent of collecting the indebtedness and perhaps not working with them, it may jeopardize our guarantee. That is perhaps why there is lacking information as to specifically what the Association's plan is.

The operating note matures December 23, 1985, and the Association does not intend to grant any extensions or consider any renewals of that indebtedness. The guaranteed loan does not mature until March 28, 1986; therefore, the Association will not be in a position to commence any collective activity on the guaranteed loan until that point in time.

Adair · Clarke · Decatur · Madison · Ringgold · Union · Warren

Source: Randy Caviness, Farm Credit borrower.

August 1, 1985
Mr. Verlyn Carlson
Page 2

Once the maturity of December 28, 1985, arrives, the Association will just try to liquidate the operation down as best it can and, hopefully, the borrowers will not be able to misaccount with a large amount of proceeds. As you can see, there are a good number of unsecured creditors in this situation and it will be somewhat messy and the Association will, no doubt, be involved in a Chapter 11 bankruptcy, if the borrowers can put together a plan that will work. If not, the 11 will end up being a 7 which will ultimately provide for liquidation which is what would be in the Association's best interest at that time.

Should you have any questions or require further information, please do not hesitate to contact me. I apologize for putting you in a position of trying to guess or speculate on what had transpired on this account. I relied heavily on Bob's work on this matter; however, as you stated, he was probably in somewhat of a hurry to get this done prior to him starting his new job.

Sincerely,

Bruce A. Baudgarn
Vice President

BAB/ck

Enclosures

SEP 23 1988

9-21-88

Subject: OIG Investigation

To: All District Directors, County Supervisors and FBA's

The Office of Inspector Generals Office has advised us to notify all FmHA County Offices not to destroy any FCA guaranteed loan file until further notice because of ongoing investigation.

H.R. PIM
State Director

Source: Randy Caviness, Farm Credit borrower

Farm Credit Banks of Omaha

Memo

TO: File

DATE: January 10, 1986

FROM: Roger Cramer

SUBJECT: Caviness Farms, Inc.

While in Sidney, I talked to John Helling, Regional Vice President for Region 111 (Clarinda, Red Oak, and South Central Iowa). I discussed the phone call with Caviness.

John said his staff is investigating up to 15 cases of FmHA loans from South Central Iowa PCA. There may be some problems with a number of these loans. He was not able to go into further detail but said he would keep us informed. I will follow up.

Most disturbing was John's statements that Caviness may be right in their statements concerning the FmHA loan.

This will also be followed up on.

Source: Randy Caviness, Farm Credit borrower

Farm Credit Banks of Omaha

Memo

TO : Terry Fuhrman

DATE : January 18, 1986

FROM: Roger J. Cramer

SUBJECT: Caviness Farms, Loan From Region 111

Enclosed is a lengthy recap of our analysis of the last 18 months of the prior approval activity on this loan. Included is several telephone conversations this borrower has had with the Bank.

The borrowers are upset with the association in the way their loan has been handled and said they have contacted the Attorney General of Iowa and the State FmHA office. They also said they would file a suit against the PCA for giving fraudulent financial information to FmHA.

Most disturbing was John Helling's comment when I reviewed the last phone call with him on January 10, 1986. He said the borrowers are probably right. This is based on a review he is in process of completing on up to 15 loans that have received either direct or guarantees from FmHA. I will continue to follow-up and monitor this loan.

Exhibit 73

I have also discussed this loan with Jim Stych.

EXHIBIT

Source: Randy Caviness, Farm Credit borrower

LAW OFFICES
DUNCAN, JONES, RILEY & FINLEY, P.C.
8TH FLOOR · EQUITABLE BUILDING
DES MOINES, IOWA 50309
(515) 288-0145

May 5, 1987

The Honorable Charles Grassley
Senator
Federal Building
Des Moines, Iowa 50309

Dear Senator Grassley:

I recently read in the Des Moines Register that the Farmers Home Administration was suing two farmers for alleged misrepresentation and fraud in obtaining FmHA loans. Those allegations were of particular interest to me and my partner, Lorraine May, as we represent Harold, Beverly, Randy and Janalee Caviness in a suit against the Production Credit Association of the Midlands. In part, it is the Caviness' allegation that the PCA helped the Cavinesses obtain an FmHA guaranteed loan with the sole intent of not working with the Cavinesses and collecting on the guaranty. In the course of discovery during the litigation, a number of documents have been found which tend to substantiate the Caviness' claims and further indicate that false information was provided by the PCA to the FmHA. These documents were recently called to the attention of FmHA; however, FmHA seemed wholly unconcerned and uninterested in the information.

The Cavinesses operate a family farm in Adair County. In April, 1985, they entered into an FmHA guaranteed loan with South Central Iowa PCA (now PCA of the Midlands). The FmHA guarantee was to pay 90% of the loan to PCA if the Cavinesses defaulted. As part of the plan for financing, the PCA agreed, among other things, to work with the Cavinesses in the event of a default and to make any reasonable accommodation to maintain the loan. In conjunction with the guaranteed loan, the PCA made an operating loan. The PCA loan officers have admitted that it was contemplated that the loan arrangement would continue for several years and was not a one-time, one-year financial plan. The information we have compiled, however, indicates that PCA entered into a calculated plan to put the Cavinesses out of business and collect on the FmHA guarantee within the one-year period. For

Source: Randy Caviness, Farm Credit borrower

Senator Charles Grassley
May 5, 1987
Page Two

your review, I have enclosed a copy of the FmHA loan agreement between PCA and FmHA which bears a date of April 1985. The relevant portions have been marked for your easy reference. I have also included a loan approval request marked as Exhibit 64. That document indicates that the PCA was "setting itself up to get out of the loan on the maturity date of December 28, 1985." Also included is a letter, Exhibit 24, from the PCA Vice President, Bruce Baumgarn, to the Farm Credit Banks in Omaha dated August 1, 1985. That letter reads in pertinent part:

> "These borrowers have not varied substantially from the projections although it is the opinion of the Association that further deterioration is very likely. The Association has a plan of action to collect this loan. That plan being that when the guaranteed loan is due, that efforts will be made to accelerate the indebtedness and ask for payment as per the terms of the guarantee. The Association is very confident that no funds will be available to make the guaranteed loan payment. The Association is very reluctant to indicate this plan of action in anything but an informal letter such as this which will not be part of the permanent loan file. In order for the Association to collect this loan, it is anticipated litigation will be involved and no doubt the contents of a loan file will be revealed in litigation. If the Association indicates in its loan comments that it entered into the guaranteed loan with these borrowers with the sole intent of collecting the indebtedness and perhaps not working with them, it may jeopardize our guarantee.

I would also call to your attention four memorandums, Exhibits 54, 72, 73 and 74, from Roger Cramer of the Farm Credit Banks of Omaha dealing with conversations with John Helling, a Vice President of the PCA. In those memorandums, John Helling, as Vice President of PCA, indicates that there was probably fraud in the Caviness loan and in fifteen other FmHA loans from the South Central Iowa PCA. The Farm Credit Banks of Omaha did an investigation of the Caviness loan and the allegations of fraud. Unfortunately, I do not have a copy of that report. Even though we subpoenaed the report, FICBO (and PCA) now assert that it is protected by the attorney-client privilege. I find that most surprising in view of the statutory and regulatory obligation that the Credit Bank has to investigate all allegations of fraud or misconduct by PCAs with or without an attorney involved but they have continued to assert the "privilege". I am not certain how helpful the report would be, however, since the investigator,

Source: Randy Caviness, Farm Credit borrower

Senator Charles Grassley
May 5, 1987
Page Three

Mr. Tomsfeldt, indicated during his deposition that he did not think the Cavinesses were harmed because they could not have made their payments anyway. Needless to say, we differ substantially from Mr. Tomsfeldt's conclusion in that regard, but it seems to be indicative of the callous attitude of the Farm Credit System to family farmers.

In addition, PCA performed an internal study of the fifteen cases of alleged fraud. A copy of that report is also included for your review which is entitled "Confidential Report", Exhibit 2. PCA had excised portions of the document prior to giving me a copy.

I have enclosed documents regarding one other area for your information. Exhibit 82 is a copy of the running notes from John Krummel, the former Adair County Supervisor of the FmHA. Specifically, I would call your attention to the November 8, 1985 note indicating that apparently PCA had provided incorrect information to FmHA at the time the guaranteed loan was entered into or had provided incorrect information seven months later when it reported to FmHA on the condition of the loan. Similarly, on October 25, 1985, PCA had told FmHA that the loan was performing well. Exhibit 81. Within five days, however, PCA had decided that the Cavinesses had lost hundreds of thousands of dollars and that the loan was in jeopardy. Exhibit 78.

It strikes me as most unusual that FmHA would pursue farmers for alleged fraud when it shows no interest in investigating such conduct by the PCA. When I reviewed these documents with state FmHA officials, they did not even ask for copies of the Cramer memoranda which state that there was probable fraud involving the FmHA loan guarantee. I was given the impression that FmHA would honor the PCA guarantee and pay hundreds of thousands of dollars to PCA, rewarding PCA for the course of conduct it has pursued in violation of the interests of both FmHA and my clients.

My co-counsel and I would be more than happy to discuss this matter with your office or with the appropriate federal investigating office. I have not included all of the relevant documents because of their rather voluminous nature. Nor have I been able to provide much more than a short outline of the information compiled, but I will be more than happy to provide any additional materials requested.

Source: Randy Caviness, Farm Credit borrower

Senator Charles Grassley
May 5, 1987
Page Four

On behalf of both my clients and myself, thank you for your attention to this matter.

Sincerely yours,

DUNCAN, JONES, RILEY & FINLEY, P.C.

Hugh J. Cain

HJC:cjb

cc: Randy and Harold Caviness

Source: Clerk of Court Northern District of Iowa, Cedar Rapids.

May 14, 1987

Robert Pim, State Director
Farmers Home Administration
873 Federal Building
210 Walnut Street
Des Moines, Iowa 50309

Dear Mr. Pim:

Enclosed is a copy of alletter recefied from Mr. Hugh Cain, a constituent and andattorney from Des Moineds I beléeve you will find the letter self-explanaoory.

I would appreciate it if you would look into the alleeations raised in his letter and advise me so that I may respond to him.

Please respond to my office in Des Moines.

Sincerely,

CHARLES E. GRASSLEY
United States Senator

CEG/fs
Enclosures

Source: Randy Caviness, Farm Credit borrower.

[illegible]

[illegible]

[illegible]

United States Senate

CHARLES E. GRASSLEY

[illegible]

[illegible]

[illegible]

May 14, 1937

Mr. Hugh J. Cain
DUNCAN, JONES, RILEY & FINLEY, P.C.
4th Floor- Equitable Building
Des Moines, Iowa 50309.

Dear Mr. Cain:

Thank you for writing my office in Des Moines concerning the Cavinesses and their FmHA guaranteed loan with the PCA of the Midlands.

I have written to Mr. Bob Pim, State Director of the FmHA, concerning the allegations in the letter. As soon as I have a response, I will be in touch with you. In addition I would like to make my office available to you, if you would like to discuss in further details, this matter with the Office of Inspector General in Washington, D.C.

If you should have any questions concerning the status of the inquiry, please feel free to call my office.

Sincerely,

CHARLES E. GRASSLEY
United States Senator

CEG/fs

Source: Randy Caviness, Farm Credit borrower.

873 Federal Building
210 Walnut Street
Des Moines, Iowa 50309

June 9, 1937

Honorable Charles E. Grassley
United States Senator
721 Federal Building
210 Walnut Street
Des Moines, Iowa 50309

Dear Senator Grassley:

This is in response to your inquiry in behalf of Mr. Hugh Cain of Des Moines. Mr. Cain is representing Harold, Beverly, Randy and Janelle Caviness in a lawsuit against the Production Credit Association of the Midlands. His letter indicates FmHA seemed unconcerned and uninterested in alleged false information that was provided by PCA for an FmHA guaranteed loan in behalf of the Caviness. His letter further states, "I was given the impression that FmHA would honor the 90% guarantee and pay hundreds of thousands of dollars to PCA, rewarding PCA for the course of conduct it has pursued in violation of the interests of both FmHA and my clients."

At this point, there has been no loss claim submitted by PCA for FmHA to make a determination whether it will honor the guarantee or not. We are not aware at this time that the Caviness' account has been liquidated. This, of course, would have to take place in order for a guaranteed loss claim to even be considered. If it can be determined that PCA did not honor the terms of the guarantee and/or false information has, indeed, been provided, this would certainly impact on FmHA's decision.

At this time, FmHA is not prepared to become involved in the dispute the Caviness have with Production Credit Association. We will, however, make every effort to professionally and fairly review all pertinent information which applies directly with FmHA's guarantee with PCA.

Sincerely,

R. R. PIM
State Director

Signatures have been redacted for privacy

cc: County Supervisor, Greenfield
cc: District Director, Indianola

Johnson/mp

Source: Randy Caviness, Farm Credit borrower.

FILED
U.S. DISTRICT COURT
NORTHERN DISTRICT OF IOWA
92 APR 27 PM 4:52

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF IOWA
~~EASTERN~~ DIVISION
Cedar Rapids

UNITED STATES OF AMERICA,	)	CIVIL ACTION NO. C92-80
Plaintiff,	)	BY [illegible]
vs.	)	
THREE MILLION DOLLARS,	)	MOTION TO APPROVE MONETARY SETTLEMENT
Defendant.	)	IN LIEU OF FORFEITURE AND TO DISMISS FORFEITURE

COMES NOW the United States of America, Plaintiff in the above-entitled action, and files this motion with the Court respectfully requesting this Court's approval of a monetary settlement in the above-entitled action in lieu of forfeiture. In support thereof, the United States states as follows:

1. On April 27, 1992, a Verified Complaint for Forfeiture was filed in the above-entitled action. The complaint seeks the forfeiture of Three Million Dollars ($3,000,000) as the proceeds of alleged violations of 18 U.S.C. § 1014.
2. On April 24, 1992, an agreement involving this matter was reached between the United States and Production Credit Association of the Midlands and Farm Credit Bank of Omaha. The parties agreed that the amounts paid under the settlement would also be in lieu of any forfeiture proceeding. This agreement was reached by the parties to avoid litigation and without an admission of liability.
3. 19 U.S.C. § 1613(c) permits the settlement of forfeiture cases without the completion of the forfeiture case. Pursuant to 19 U.S.C. § 1613(c), applicable to this case through 18 U.S.C. § 981(d), if parties agree to a

Source: Randy Caviness, Farm Credit borrower.

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